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CURRENT HOUSING PROBLEMS AND POSSIBLE FEDERAL RESPONSES

The Congress of the United States
Congressional Budget Office

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NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

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PREFACE

Each year, choices are made by the Congress concerning the funding of housing aid. In response to a request from the Subcommittee on Housing and Community Development of the House Committee on Banking, Finance and Urban Affairs, this study examines the housing conditions of lower-income households, describes the nature and amount of federal housing assistance that is currently available to aid these households, and presents a broad range of options for addressing recurring questions about federal housing aid. In accordance with the Congressional Budget Office's (CBO's) mandate to provide objective and impartial analysis, this paper contains no recommendations.

Carla Pedone of CBO's Human Resources and Community Development Division prepared the paper under the supervision of Nancy M. Gordon and Martin D. Levine. Tahirih Senne and Theresa Dailey provided computer assistance, Wilhelmina A. Leigh developed some of the trend data in Chapter III, and Brent Shipp supplied some of the cost estimates in Chapter V. Many people at CBO reviewed earlier drafts of the report, including Edward M. Gramlich, Larry Ozanne, Rudolph Penner, Bruce Vavrichek, and Roberton C. Williams. Valuable comments were also received from Ken Beirne, Paul Burke, Anthony Downs, Robert Gray, Jill Khadduri, Duane T. McGough, Joseph Riley, Ann B. Schnare, Morton Schussheim, and John Weicher.

Sherry Snyder edited the manuscript, with the assistance of Nancy H. Brooks. Jill Bury helped prepare early drafts of the manuscript, and Kathryn Quattrone prepared the paper for publication.

James L. Blum
Acting Director

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SUMMARY

For half a century, through a variety of programs, the federal government has attempted to improve housing conditions and reduce housing costs for an increasing number of lower-income households. In 1987, over 5 million households were aided, at a cost of more than $15 billion. Housing assistance is restricted to households that meet certain eligibility requirements, but it is not provided as an entitlement. Thus, recurring choices must be made by the Congress regarding what form the assistance should take, the types and number of households to serve, and how large a subsidy to provide.

HOUSING CONDITIONS OF ELIGIBLE HOUSEHOLDS

The predominant housing problem facing households that are eligible for assistance is the high cost of housing, although some of these households also live in substandard or crowded dwellings (see Summary Table 1). In 1985, four-fifths of all very-low-income renters, the primary target group of housing assistance programs, and over two-fifths of all low-income renters, a group that is also eligible for assistance, spent more than 30 percent of their income on housing costs. Affordability was the only problem for more than 60 percent of all very-low-income renters, but about one-fifth of them also lived in substandard or crowded quarters. Another 5 percent occupied physically inadequate living quarters without paying a large share of their income for housing. In all, only 16 percent of very-low-income and 44 percent of low-income renters experienced none of these problems.

The incidence of housing problems varies substantially among different groups of households in the target population. In 1985, elderly renters with no children present were less likely to experience housing problems than were families with children or nonelderly renters without children. While affordability was the overwhelming problem among all groups, almost half of all very-low-income renters with three or more children present lived in dwellings that were physically

SUMMARY TABLE 1. HOUSING CONDITIONS OF RENTERS ELIGIBLE FOR HOUSING ASSISTANCE, BY INCOME AND HOUSEHOLD TYPE, 1985

	Elderly, No Children[a]	Nonelderly, No Children[b]	Households With 1 or 2 Children	Households With 3 or More Children	All
	Very-Low-Income Renters (As percentage of households in demographic category)				
No Problems	24	11	13	13	16
Costly Only[c]	65	68	60	37	61
Costly Plus Substandard or Crowded[c, d]	8	17	23	37	19
Substandard or Crowded Only[d]	3	4	4	12	5
Total	100	100	100	100	100
	Very-Low-Income Renters (Thousands of households)				
Total	3,130	3,170	3,270	1,520	11,090

SOURCE: Congressional Budget Office tabulations from the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Excludes renters that paid no cash rent and households for which housing cost-to-income ratios are not computed because their housing costs are not available or because their income is zero or negative. The proportions of households with various housing conditions are calculated as a percentage of households for which these ratios are computed.

The income classification corresponds roughly to the definition used in federal housing assistance programs. A four-person household is classified as very-low-income if its family income is less than or equal to 50 percent of the area's median, and as low-income if its family income ranges from 51 percent to 80 percent of the area's median. Threshold incomes are adjusted for family size.

a. An elderly household is one headed by a person age 62 or older.

b. Nonelderly households without children present that meet the income criteria of federal housing programs are subject to further restrictions in determining their eligibility for rental assistance. In general, eligibility is restricted to families (that is, to groups of at least two individuals related by

(Continued)

SUMMARY TABLE 1. Continued

	Elderly, No Children[a]	Nonelderly, No Children[b]	Households With 1 or 2 Children	Households With 3 or More Children	All
	Low-Income Renters (As percentage of households in demographic category)				
No Problems	43	47	44	29	44
Costly Only[c]	48	37	32	22	36
Costly Plus Substandard or Crowded[c, d]	3	6	7	12	7
Substandard or Crowded Only[d]	6	10	17	36	14
Total	100	100	100	100	100
	Low-Income Renters (Thousands of households)				
Total	900	2,600	2,100	550	6,140

b. Continued

blood or marriage), to households with handicapped or disabled persons, to persons displaced by government action or federally recognized disaster, or to the remaining member of a tenant family. Assistance to other single persons may only be provided subject to certain stringent limitations.

c. Housing costs for renters include tenant payments due to the landlord, utility costs not included in the rent payment, and renters' insurance. Costly is defined here as housing costs exceeding 30 percent of a household's income, the proportion paid by most households receiving federal housing subsidies.

d. Substandard units are defined here as those lacking complete plumbing or kitchen facilities, or with two or more of 11 different structural defects. This standard was developed by CBO and produces estimates comparable to those based on indices developed by HUD. Crowded units are defined here as those with more than two persons per bedroom. This definition approximately corresponds to the standard used in federal housing assistance programs.

inadequate (mostly because of lack of space rather than unsound conditions), whereas only 11 percent of very-low-income elderly renters lived in such quarters.

Among very-low- and low-income households (referred to here collectively as lower-income households), the incidence of housing problems is substantially lower among homeowners than renters. In 1985, 38 percent of very-low-income homeowners and 72 percent of low-income homeowners experienced no problems at all. The incidence patterns of housing problems among owners with various demographic and income characteristics, however, generally resembled those among renters with similar characteristics.

FEDERAL HOUSING ASSISTANCE

The federal government addresses housing needs of lower-income households through a variety of direct spending programs administered by the Department of Housing and Urban Development (HUD) and the Farmers Home Administration (FmHA). Both rental and homeownership subsidies are provided. Each year, the Congress appropriates funds to pay for new assistance commitments that run generally from 5 years to 50 years. These commitments add to the number of households already receiving aid from previous appropriations, but they also raise federal outlays for the term of the commitments. The number of new commitments funded each year has decreased over the past 12 years. In particular, the number of net new rental assistance commitments fell from more than 375,000 in 1977 to fewer than 108,000 in 1988, thus slowing the growth in the total pool of available aid.

Types of Housing Assistance

Most programs aid lower-income renters. This assistance is provided through two basic approaches: project-based subsidies (such as the public housing and the Section 8 new construction programs), which are typically tied to projects specifically constructed for lower-income households, and household-based subsidies (such as the Section 8 existing-housing and housing voucher programs), which permit

households to choose standard units in the existing private housing stock. Subsidies generally reduce households' housing costs to a fixed percentage--currently 30 percent--of their income after certain deductions, and households are required to live either in units specifically built for them or in units that meet federal quality standards and with rents that do not exceed federal guidelines. Under the voucher program, however, households are allowed to live in units that rent for more than the federal standards, in which case they have to pay more than 30 percent of their income.

At the end of fiscal year 1987, 4.3 million households actually received rental assistance, while another 0.4 million rental commitments remained in the processing pipeline. Thus, a total of almost 4.7 million renters can be assisted from funds appropriated through 1988 (see Summary Table 2). In recent years, relatively few new commitments have been funded under the new construction programs. For example, of the estimated total of 114,000 additional rental commitments funded by 1988 appropriations, only 32 percent is for new construction, mostly for the elderly and handicapped. Nevertheless, because of the predominance of new construction assistance in the earlier years, more than three-quarters of all assisted households will receive aid through project-based subsidies, once construction of all projects in the processing pipeline is finished.

In addition to providing rental assistance to households predominantly classified as very-low-income, the federal government aids some households with slightly higher income in becoming homeowners by reducing their mortgage interest for a certain period--generally up to 33 years. In fiscal year 1988, an estimated 27,000 additional households received this form of assistance through the Section 502 program administered by the FmHA. Because of attrition among program participants, the total number of households receiving this type of aid has remained fairly constant over time, at around 1 million--about one-fifth of all households receiving housing subsidies at the end of 1987.

Federal costs per household vary across housing assistance programs. In 1987, the estimated cost of assisting the average renter participating in the Section 8 existing-housing certificate and voucher programs was about $4,200, including fees paid to administering agencies. Comparable figures for assisting a household through the

new construction programs are difficult to derive, because of the myriad and timing of assistance mechanisms--including tax advantages--involved in these programs. Past studies suggest, however, that the per household cost of these programs could be up to twice that of the existing-housing programs. The estimated subsidy per homeowner under current programs was around $1,900 on average in 1987.

SUMMARY TABLE 2. COMMITMENTS AND OUTLAYS BY MAJOR FEDERAL HOUSING ASSISTANCE PROGRAMS, 1987

Program	Households Assisted End of Fiscal Year 1987 (Thousands)	Commitments Outstanding Through Fiscal Year 1988 (Thousands)[a]	Total Outlays During Fiscal Year 1987 (Millions of dollars)
Rental Assistance Programs			
Section 8			
Existing-Housing			
Vouchers	82	184	81
Certificates	874	895	b
Loan management, property disposition, and conversions	414	438	3,819[b]
Moderate rehabilitation	76	126	244
Subtotal, Existing-Housing	1,446	1,643	4,144
New Construction and Substantial Rehabilitation	794	868	3,981
Public Housing	1,390	1,433	3,517[c]
Other HUD Programs[d]	552	551	686
Section 515 Rural Rental Assistance	349	394	853[e]
Total[f]	4,296	4,653	13,180

SOURCE: Congressional Budget Office based on data provided by the Department of Housing and Urban Development and the Farmers Home Administration.

a. Includes commitments being processed, as well as commitments that will be funded from the 1988 appropriation. Excludes commitments expected to be lost because funds are deobligated or because landlords or homeowners drop out of the programs in 1988.

b. Section 8 certificates are included in loan management, property disposition, and conversions.

(Continued)

Distribution of Housing Aid

Housing programs serve various types of households at different rates. Among programs that provide rental assistance, new construction programs have heavily benefited the elderly, while existing-housing programs have served a higher proportion of families with children. Homeownership programs have predominantly helped nonelderly families.

SUMMARY TABLE 2. Continued

Program	Households Assisted End of Fiscal Year 1987 (Thousands)	Commitments Outstanding Through Fiscal Year 1988 (Thousands)[a]	Total Outlays During Fiscal Year 1987 (Millions of dollars)
Homeownership Assistance Programs			
Section 235 Mortgage-Interest Subsidies	159	144	182
Section 502 Rural Housing Loans[g]	899	876	1,900
Total[h]	1,059	1,020	2,082

c. Includes outlays for operating subsidies, for the up-front capital costs of new construction and modernization activities undertaken during 1987, and for debt service of construction and modernization activities undertaken before 1974.

d. Includes currently inactive Section 236 and rent supplement programs.

e. Total outlays include household subsidies provided under the FmHA's rental assistance payments program and mortgage-interest subsidies provided to the developers.

f. The total does not equal the sum of the number of households assisted under the various programs; rather, it has been adjusted to avoid double-counting households receiving more than one subsidy. These households include 189,000 households assisted through Section 236 as well as either rent supplement or Section 8, and about 46,000 households assisted through both Section 515 and Section 8.

g. Includes 141,000 assisted households whose loans were sold to private investors in 1987. Total outlays do not include the loss of $1 billion associated with these asset sales, however.

h. Although at the end of 1987 over 26,000 commitments for new homebuyers were still being processed, an estimated 66,000 households are expected to leave the programs in 1988. Thus, the total number of outstanding commitments is declining.

Because of these differences in program participation rates and the mix of currently available subsidies, housing aid is unevenly distributed. In the aggregate, if the 4.7 million rental assistance commitments available from past appropriations were received exclusively by the primary target group--that is, the 12.2 million renters estimated to have very low incomes in 1988--up to 38 percent of them could be served eventually (see Summary Table 3). The roughly 2 million outstanding commitments available to the elderly can serve an estimated 51 percent to 57 percent of all very-low-income elderly renters, how-

SUMMARY TABLE 3. ESTIMATED DISTRIBUTION OF THE ELIGIBLE POPULATION AND THE RENTAL ASSISTANCE AVAILABLE FOR VARIOUS GROUPS OF HOUSEHOLDS, 1988

Type of Household	Very-Low-Income Renters (Thousands)[a]	Assisted Units Available to Group (Thousands)[b]	Percentage Served By: All Commitments Available to Group	Percentage Served By: 90 Percent of Commitments Available to Group[c]
Elderly, No Children	3,500	1,990	57	51
Nonelderly, No Children	3,500	660	19	17
Households with 1 or 2 Children	3,600	1,380	38	35
Households with 3 or More Children	1,600	620	38	34
Total	12,200	4,650	38	34

SOURCE: Congressional Budget Office estimates based on information provided by the Department of Housing and Urban Development and the Farmers Home Administration.

NOTE: Income category and household types are defined in notes to Summary Table 1.

a. Estimates of the total number of very-low-income renters are based on the 1985 American Housing Survey, adjusted for growth in the number of households between 1985 and 1988, assuming the number of very-low- and low-income renters grew at the same rate as the number of households in general. Excludes renters that pay no cash rent.

b. Includes units still being processed at the end of fiscal year 1988.

c. Since 1981, housing assistance has been targeted almost exclusively toward very-low-income households. A small but unknown proportion of assisted units, however, are still occupied by low-income renters. These figures assume that 90 percent of commitments are received by very-low-income renters, with 10 percent going to low-income renters.

ever, depending on how many of these commitments currently go to low-income elderly renters. By contrast, commitments available to households with children present and to nonelderly childless households can serve at most roughly 38 percent and 19 percent, respectively, of those with very low incomes. Homeownership assistance is provided to roughly one in ten lower- and moderate-income homebuyers in any year, with nonelderly households receiving almost all of the assistance.

ISSUES AND OPTIONS

As is the case with all direct spending programs, the fundamental issue facing the Congress each year concerning housing programs is how much funding to devote to this type of assistance. This determination involves trade-offs among increasing funding for this activity versus decreasing funding of other government functions, raising taxes, or increasing the deficit. In addition, a host of decisions must be made regarding issues specific to housing policy, including:

- What form assistance might take;
- Who might receive it; and
- How large a subsidy might be provided and how many households might be aided.

While these issues can be considered separately, any final resolution involves trade-offs among them and with total annual program costs. For example, the proportion of eligible households served could be increased by enlarging the pool of available commitments, by restricting assistance to a smaller, poorer group of households, or by combining both approaches. To limit increases in federal expenditures generated by this decision, cheaper forms of assistance could be chosen, households' out-of-pocket expenditures could be increased, or these strategies could be combined.

A related issue of growing importance will also affect decisions on how to deal with these questions. This issue concerns the potential loss of housing assistance commitments resulting from impending

expirations of many multiyear assistance contracts and opportunities for private owners of certain federally subsidized projects to opt out of the programs. Although specific approaches for keeping these units in the programs are not considered in this paper, the choices involve many of the same trade-offs as those for providing additional aid.

What Form of Assistance to Provide

In considering what type of aid to provide for newly assisted households, one basic decision involves the split between homeownership and rental assistance. Some argue that homeownership assistance should no longer be provided, because beneficiaries of those programs are often not in the poorest segment of the population. Proponents of direct homeownership subsidies argue that this type of aid provides lower-income households with a chance to gain financial equity in a home, giving them the same opportunities that higher-income households derive from tax expenditures for homeownership.

A decision to continue aid to homeowners could be carried out in several ways. The traditional approach has been to reduce mortgage payments for homebuyers through mortgage-interest subsidies in a manner that allows the size of the subsidy to vary over time in response to changes in the household's economic circumstances. The government, however, continues to be involved over the life of the mortgage, generating administrative costs. An alternative approach for helping homebuyers is to reduce the principal amount of the mortgage by providing grants or otherwise reducing the purchase price. This approach would limit the time the government was involved, but it would also eliminate the ability to adjust the size of the subsidy over time in response to changes in a household's income. A third strategy would be to offer subsidies to homeowners, both those who already own their homes as well as those purchasing one, through vouchers similar to those available to renters. Such aid would help prevent poor households from losing their homes because of difficulties in meeting their payments, but it would direct scarce federal resources to a group that may have substantial assets in the form of accumulated equity in their homes.

Debates on how to provide rental assistance typically focus on the mix between project-based new construction programs and household-

based subsidies that use the existing private housing stock. Because subsidized new construction is relatively expensive to fund and slow to be put in place, this form of aid might be phased out completely. Moreover, subsidies provided solely through the existing-housing programs would respond to the predominant problem, which is not a shortage of rental units but the ability of households to afford their rents. On the other hand, new construction might be needed in areas where the private market fails to provide an adequate supply of units fulfilling the specific needs of certain types of households in the local lower-income population. Many elderly people, for example, need the support services that can be made available in projects; and many large families may have trouble finding housing units of the appropriate size.

Which Households to Serve

Each year, the federal government must determine what types of households should receive whatever additional aid is provided. This decision is primarily one of targeting--toward elderly households versus families with children or nonelderly households without children, toward households with greater housing needs, or toward the poorest of the households eligible for aid.

Given the uneven distribution of housing aid across demographic groups--specifically, the elderly are now served at much higher rates than are families with children--participation rates could be brought closer together. On the other hand, continuing to serve the elderly at relatively higher rates might be preferred because the economic status of a given poor elderly household is unlikely to improve much over time, while the financial position of nonelderly adults and their families might be helped more in the long run if they received federal aid to enhance their employment opportunities.

To move toward equalizing participation rates, most or all new aid could be designated for families with children, until their participation rate equaled that of the elderly. Given the current gap in coverage, however, this could require a moratorium of about nine years on new aid for the elderly, or a substantial reduction in funding (relative to current policy) for a longer period.

Alternatively, eligibility for housing aid could be restricted to households with housing problems, and aid could be distributed according to the frequency with which housing problems occur within demographic groups. Such a scheme would automatically increase the share of new assistance going to families with children, because they encounter housing problems more frequently than do the elderly--in part because they have been underserved in the past. This approach would, however, penalize frugal households and might create perverse incentives for households to undermaintain their units or to move to expensive ones in order to qualify for aid.

Another approach would be to change the income-eligibility limits and target aid toward the poorest segment of the population, thereby automatically raising the proportion of eligible households served. Such a scheme would lessen the necessity to ration aid and would reduce uneven treatment of households in similar economic circumstances. But it would impose hardships on many working poor people who would no longer be eligible for aid and could harm their chances to remain in their current units or obtain housing in the vicinity of their jobs. In addition, a more limited economic mix of households would make the living environments in assisted housing projects less desirable and, in many areas, defy the goals of racial integration.

Number of Households to Assist and the Size of the Subsidy

The number of households that the Congress chooses to assist and the amount of subsidy each household receives determine the ultimate cost of housing programs to the federal government. In the past, these questions have been considered separately. Decisions on the additional number of commitments have been made annually, while the size of the subsidy has been adjusted less frequently.

One option would be to make assistance available to all currently eligible households who wish to participate. This would eliminate the unevenness of current housing programs but would make control over future expenditures much more difficult, as is the case with all entitlement programs. It would also be extremely expensive, with federal costs depending on the size of the eligible population, household participation rates, and the type of assistance used. Assuming that only very-low-income renters were eligible, that 58 percent of them would

very-low-income renters were eligible, that 58 percent of them would participate, and that vouchers were used for all new recipients, an entitlement program would increase outlays by roughly $11.1 billion per year (in 1990 dollars) over current levels and would assist a total of about 7 million households, once fully phased in.

Uneven treatment of households could also be eliminated by moving in the opposite direction and phasing out housing assistance programs as current contracts expired. Provision of general income supplements for all households that are currently eligible for housing assistance might be carried out simultaneously. For example, if outlays were kept at their 1990 level, an average of $1,260 per household would be available as an annual income supplement if restricted to very-low-income renters. The supplement would be roughly $680 per household if very-low-income homeowners were also included. However, because these transfer payments would be much smaller than the housing subsidies currently received by many participants, this strategy would probably force some currently assisted households to move from their units and would do little to improve housing conditions for those who preferred to spend their subsidies on other goods and services.

Alternative strategies to help more households without resorting to either extreme include continuing the gradual expansion of housing assistance commitments or, perhaps, combining that approach with a decrease in the average subsidy in order to limit the level of expenditures. The average subsidy could be reduced either by increasing households' out-of-pocket expenditures or by decreasing the maximum rent level that the government would subsidize.

One benchmark that could be used to expand program coverage would be to provide the 1989 level of funding--adjusted for inflation--for net additional commitments, which could assist around 94,000 new households under HUD programs and around 44,000 under FmHA programs in 1990. If current program guidelines remained the same, this addition would require $9.9 billion in new budget authority for fiscal year 1990 for HUD programs, including funds for public housing operating subsidies, and $1.9 billion in loan authority for FmHA.

Annual expenditures could be decreased if the average subsidy were lowered by requiring assisted households to contribute a larger

share of their income for rent. If, for example, households had to pay 35 percent of their income, about $1.3 billion in annual savings could be realized by 1993, when 80 percent of such a change would be phased in. These savings could be used that year to assist up to 246,000 additional households or for other purposes. The fact that so many nonassisted poor households pay more than half of their income for rent supports this approach. Furthermore, a higher rent-to-income ratio would tend to make assisted housing less attractive to higher-income households and thus would target aid toward those most in need. It would, however, increase housing costs for current recipients by the same percentage, regardless of how low their incomes were.

Another strategy to reduce average subsidies would be to cut the maximum rent that would be subsidized. Compared with increasing tenants' contributions, this approach would not necessarily increase housing costs if tenants could find standard units within the new guidelines. On the other hand, unless landlords absorbed some or all of the decrease in allowable rents, more households with newly issued Section 8 certificates would be unable to find standard units, while some current participants would face a drop in services provided by the landlord or be forced to move from their units. Allowing households to pay more than 30 percent of their income to cover the lower government subsidy, as is the case in the voucher program, would avoid most of these effects but could substantially raise tenants' expenditures for housing.

CHAPTER I

INTRODUCTION

Federal policies specifically designed to improve the housing quality and to reduce the housing costs of lower-income people have evolved over half a century. During this period, the availability of housing assistance has greatly expanded, but it has never been provided as an entitlement. Thus, only a relatively small fraction of eligible households is now being helped. In recent years, housing assistance programs have been affected significantly by a series of cost-containment measures generated by budgetary pressures. These measures have included a dramatic slowdown in the rate at which assistance is expanding, virtual elimination of expensive types of assistance provided through new construction programs, increases in the out-of-pocket housing expenditures made by assisted households, and more explicit targeting of available resources toward a poorer segment of the population.

As with all direct spending programs, the fundamental issue facing the Congress each year concerning housing programs is how much funding to devote to this type of aid. This determination depends on national priorities and involves trade-offs among funding this activity versus other government functions, raising taxes, or increasing the deficit. In making this choice, a number of questions specific to housing policy must be considered, including the types of aid to be provided, the types of households to be served, the level of subsidy to be provided, and the total number of households to be aided.

These decisions may be affected by several related concerns. First, impending expirations of existing multiyear housing assistance contracts and opportunities for opting out of the programs by certain private owners of federally subsidized projects will decrease the pool of outstanding housing commitments over the next decade unless offsetting actions are taken. Second, the relative importance and nature of direct housing assistance will probably be reevaluated in view of the 1986 changes in the tax code. These changes have generated uncertainty regarding the level of the private sector's involvement in

constructing new low-income units; they are also widely predicted to cause overall increases in rents some years from now. Finally, continued interest in comprehensive welfare reform may mean reassessing the role and nature of federal housing assistance among the broad range of programs that help provide for the basic needs of the poor.

The federal government addresses housing needs by providing assistance through a combination of direct spending programs and various indirect mechanisms, including housing-related provisions of the tax code and mortgage credit and insurance activities.[1] The rest of this chapter describes the overall scope of federal housing aid, and the remainder of the paper provides information particularly relevant to direct spending programs targeted toward lower-income households. Specific topics include the nature and extent of housing problems, the types of households that are likely to experience these problems, how currently available housing assistance addresses these problems, how much assistance is currently provided, and who receives it. The paper concludes by presenting a broad range of options that the Congress may want to consider in making recurring policy choices about providing housing assistance to lower-income households.

DIRECT SPENDING PROGRAMS

Most direct spending programs provide subsidies for lower-income households. These subsidies are intended to reduce the recipients' housing costs and to improve the quality of their housing. The largest programs are the rental assistance programs administered by the Department of Housing and Urban Development (HUD) and reduced-interest mortgages provided by the Farmers Home Administration (FmHA) for rural residents buying their own homes and for developers of rental housing projects in rural areas. In addition, each year the federal government helps pay for repairing some units that require

1. An additional source of housing aid is provided through the income maintenance programs administered jointly by the Department of Health and Human Services and state and local governments. Explicit or implicit shelter allowances provided through the Aid to Families with Dependent Children, Supplemental Security Income, and General Assistance programs are estimated to amount to more than $10 billion a year at present. For an analysis of shelter assistance through both housing assistance and income maintenance programs, see Sandra J. Newman and Ann B. Schnare, *Reassessing Shelter Assistance in America* (Washington, D.C.: Urban Institute, 1987).

rehabilitation. Most of this aid is provided directly through the public housing modernization program and through a recently enacted rental housing rehabilitation block grant, and indirectly through community development block grants to cities.

The major direct subsidy programs are generally funded through long-term contracts. The Congress appropriates funds each year to pay for some number of new commitments that expand the pool of available aid and also add to federal outlays for many years. Between 1977 and 1988 alone, about 2.2 million new rental commitments were made, and about 0.8 million new subsidized mortgages were provided for homebuyers. By the end of fiscal year 1988, the total number of outstanding commitments had risen to almost 5.7 million, about 80 percent of which were for rental assistance, with the remainder for subsidized mortgages. Federal expenditures for direct housing subsidies amounted to over $15 billion in 1987. Another $1.3 billion was spent for rehabilitation activities financed through community development programs.

Despite these high levels of activity and expenditures, only a relatively small proportion of all eligible households is served. Rental assistance commitments financed to date, for example, will probably serve only about one-third of the target group of renter households. The coverage differs among various types of households, however. The elderly receive a relatively large share of rental assistance, while families with children are served at a lower rate.

INDIRECT ASSISTANCE

Housing-related tax expenditures and credit assistance differ from direct spending for housing in two important ways. First, they offer general support for housing and, unlike direct federal spending programs, are not limited to lower-income groups. In fact, the bulk of this aid is received by middle- and upper-income households. Second, tax expenditures and credit assistance are available to all who meet basic eligibility requirements, but only a portion of those who are eligible for direct aid currently receive it.

Housing-Related Tax Benefits

A number of provisions in the federal tax code provide by far the largest source of housing subsidies. Most of these benefits go to moderate- or high-income homeowners, either by reducing the after-tax costs of homeownership or by lowering the capital gains liability when homes are sold for a profit. Because the Tax Reform Act of 1986 reduced personal income tax rates and increased the standard deduction, resulting in fewer persons itemizing deductions, the value of these provisions to homeowners and, hence, the annual cost to the government, has decreased recently. Nevertheless, together these homeownership provisions are estimated to reduce federal tax revenue by $53.6 billion in 1989.[2] Two provisions alone--the deductibility of payments for mortgage interest and for property taxes--are estimated to account for more than $38 billion in forgone revenue. Thus, the value of these tax expenditures will still greatly exceed direct spending for lower-income housing assistance.

For rental housing, tax benefits initially accrue to the property owners, but much or all of the tax savings may eventually be passed through to tenants in the form of reduced rents. Thus, these provisions tend to be more beneficial to households in lower-income brackets than are the homeownership provisions. Owners of rental properties can benefit from tax-exempt bond financing and, until passage of the Tax Reform Act of 1986, they could also benefit from accelerated depreciation rules and deduction of losses against other income. The 1986 tax act eliminated both accelerated depreciation provisions for real estate--except for some grandfathering provisions--and opportunities for many investors to offset losses in real estate against other income. Instead, owners of lower-income rental projects now can receive annual tax credits for a portion--up to 9 percent in 1987--of certain construction, rehabilitation, or acquisition expenditures for qualified rental units for each of the first 10 years following construction or purchase. These tax credits are subject to state-by-state ceilings. (Owners of rental properties also can claim mortgage interest, property taxes, and maintenance expenses as business

2. Adding estimated revenue losses or tax expenditures for individual provisions in the tax code may be misleading; that is, the revenue gain from eliminating a number of provisions simultaneously may be greater or smaller than the sum of the parts. See Congressional Budget Office, *The Effects of Tax Reform on Tax Expenditures* (March 1988).

expenditures to offset rental income.) Together, the rental housing provisions in the tax code are estimated to result in a 1989 revenue loss of about $2.3 billion.[3]

Mortgage Credit and Insurance Activities

The federal government provides significant support for housing finance through various mortgage insurance and guarantee programs and through its secondary mortgage activities. It also insures and supports private savings and loan associations, which--among all mortgage lenders--originate the largest share of all mortgage loans. These activities help expand credit sources for housing, and, in the case of insurance activity, help increase homeownership opportunities for households with moderate income. They also create contingent liabilities for the federal government.[4]

Mortgage insurance and guarantees are provided through a variety of programs administered by the Federal Housing Administration (FHA) and the Veterans Administration (VA). In fiscal year 1987, the FHA insured $93 billion in new loans covering more than 1.6 million units. At the end of that year, the total federal contingent liability for FHA's outstanding mortgage insurance amounted to almost $270 billion. The VA provided similar support for veterans, guaranteeing $35 billion in new mortgages covering 479,500 units in 1987, with the guarantee generally covering 40 percent to 50 percent of the loan's principal, up to a maximum of $36,000. The cumulative federal contingent liability for VA mortgages was more than $65 billion at the end of fiscal year 1987.

The federal government is involved in the secondary mortgage market directly through the Government National Mortgage Association (GNMA), an agency of HUD, and indirectly through the Federal National Mortgage Association (FNMA) and the Federal Home Loan

3. For an overview of the literature on and additional analysis of the implications of tax reform for rental housing, see Jane G. Gravelle, *Tax Policy and Rental Housing: An Economic Analysis* (Congressional Research Service, June 25, 1987).

4. For more information on federal participation in the secondary mortgage market, see Congressional Budget Office, *The Housing Finance System and Federal Policy: Recent Changes and Options for the Future* (October 1983).

Mortgage Corporation (FHLMC), both of which are federally chartered but privately owned agencies. GNMA guarantees the timely payment of interest and principal of privately issued securities backed by federally insured or guaranteed mortgages. In fiscal year 1987, GNMA guaranteed the sale to private investors of $115 billion in such securities, bringing the federal contingent liability for its outstanding guaranteed securities to $309 billion. In contrast, FNMA's and FHLMC's purchases of private mortgages, which are financed either by debt issued in the form of bonds or stocks or by securities backed by these mortgages, have no federal budgetary implications other than FNMA's $2.25 billion line of credit to the Treasury--which has never been used. During calendar year 1987, FNMA purchased mortgages valued at $20 billion, bringing the outstanding principal balances on secured or retained mortgages to $97 billion. FHLMC's comparable figures were $77 billion and $226 billion, respectively.

CHAPTER II

HOUSEHOLD CHARACTERISTICS AND HOUSING CONDITIONS OF THE TARGET POPULATION

This chapter examines the current nature, incidence, and distribution of housing problems in the United States. Housing problems are defined here along three dimensions: affordability, the physical condition of occupied dwelling units, and crowding.

Any measurement of housing problems depends on the particular standards used and is therefore arbitrary, in that stricter standards result in a higher incidence of the problems being measured. The standards used here are generally compatible with those of most housing programs. Thus, households are defined as having problems affording housing when they pay out of pocket more than 30 percent of their income for housing costs--roughly the tenant contribution toward rent in assisted housing set by statute.[1] Dwelling units are judged in need of rehabilitation or repair using a Congressional Budget Office (CBO) index that measures a host of structural defects--a standard that produces estimates comparable to those based on indices developed by the Department of Housing and Urban Development (HUD) and others cited in the literature.[2] Crowding is defined as more than two persons per bedroom--a standard similar to but somewhat less strict than the standard used in HUD housing programs. More complete definitions of these housing problems are given in Box 1.

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1. Before 1981, subsidized tenants were required by law to contribute only 25 percent of their income after certain adjustments. The program standard was adjusted in 1981 to reflect overall increases in rent-to-income ratios--for example, the nationwide median had risen to 29 percent by 1983.

2. For a comparison of outcomes using nine indices, including the CBO index, see Sandra J. Newman and Ann B. Schnare, *Reassessing Shelter Assistance in America* (Washington, D.C.: Urban Institute, 1987).

BOX 1
DEFINITIONS OF HOUSING PROBLEMS

Affordability. Households are considered to have problems affording housing when they pay out of pocket more than 30 percent of their income for housing--roughly the tenant contribution toward rent in assisted housing set by statute. Housing costs for renters include tenant payments due to the landlord, utility costs not included in the rent payment, and renters' insurance. Housing costs for homeowners include mortgage payments, real estate taxes, property insurance, and utilities. Both measures of cost exclude federal subsidies. The income measure used is family income, except for groups of unrelated nonelderly adults, for which household income is used.

Housing costs for homeowners are computed without taking account of tax benefits and equity gains, both of which reduce the real cost of homeownership for many of these households. On the other hand, opportunity costs of capital tied up in the home are not included, which increases the real cost of homeownership. In addition, these housing costs exclude expenditures for maintenance and repairs, which also increase the cost of owning a home.

Physical Condition of Dwelling Units. Housing units are judged to be in need of rehabilitation according to an index developed by the Congressional Budget Office (CBO). Units in need of rehabilitation are defined here as those lacking complete plumbing or kitchen facilities, or with two or more of 11 different structural defects. These defects are: (1) three or more breakdowns of six or more hours each time in the heating system during the previous winter; (2) three or more times completely without water for six or more hours each time during the preceding 90 days; (3) three or more times completely without a flush toilet for six or more hours each time during the preceding 90 days; (4) leaking roof; (5) holes in interior floors; (6) open cracks or holes in interior walls or ceilings; (7) broken plaster or peeling paint over more than one square foot of interior walls or ceilings; (8) unconcealed wiring; (9) the absence of any working light in public hallways for multi-unit structures; (10) loose or no handrails in public hallways for multi-unit structures; and (11) loose, broken, or missing steps in public hallways for multi-unit structures.

Crowding. Crowded units are defined here as those with more than two persons per bedroom. This definition is similar to the standard used in federal housing assistance programs.

OVERVIEW OF CURRENT HOUSING CONDITIONS

In 1985, the most recent year for which detailed data exist, about one of every three households in the United States experienced one or more of the housing problems defined in this study (see Table 1). By

TABLE 1. HOUSING CONDITIONS OF ALL HOUSEHOLDS, BY INCOME, 1985

Housing Condition[b]	Income[a]			
	Very-Low-Income	Low-Income	Other	All
	Thousands of Households			
Housing Costs Exceed:[c]				
30 percent of income	13,900	4,370	4,040	22,300
50 percent of income	8,210	750	320	9,280
Living in Housing Requiring Rehabilitation	2,870	1,250	2,020	6,140
Living in Crowded Units	1,280	760	930	2,960
Experiencing One or More of These Conditions[c]	14,890	5,660	6,520	27,070
	As Percentage of Households in Income Category			
Housing Costs Exceed:[c]				
30 percent of income	69	31	9	28
50 percent of income	41	5	1	11
Living in Housing Requiring Rehabilitation	13	9	4	7
Living in Crowded Units	6	5	2	3
Experiencing One or More of These Conditions[c]	74	41	14	33

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Excludes renters who paid no cash rent.

a. The income classification corresponds approximately to the definitions used in federal housing assistance programs, which target aid primarily toward very-low-income households. Income categories are defined in Box 2.

b. Housing conditions are defined in Box 1.

c. Excludes households for which housing cost-to-income ratios are not computed because their housing costs are not available or because their income is zero or negative. The proportions of households with problems are calculated as a percentage of households for which these ratios are computed.

far the most frequent problem was housing costs that were high relative to income, with well over one-quarter of all households spending more than 30 percent of their incomes, and 11 percent spending more than half. By contrast, only about 7 percent of all households occupied units needing rehabilitation, and about 3 percent lived in crowded conditions.

Housing problems are concentrated among households with incomes low enough to qualify for federal housing assistance--that is, the 21.7 million households classified legislatively as very-low-income and, to a much lesser extent, the 14.5 million households classified as low-income (see Box 2 for a definition of these income categories).[3] In particular, almost three-quarters of all very-low-income households and over 40 percent of all low-income households faced one or more of these problems. Very-low-income households were especially likely to be paying large shares of their income for housing costs, with 41 percent spending more than half.

Several factors should be kept in mind when interpreting these findings. First, the same households do not necessarily experience these problems year after year. In particular, fluctuations in households' incomes cause substantial turnover each year in the very-low-income population. Second, even households that remain classified as very-low-income may at times have higher income that reduces the proportion of income spent for housing or enables them to move to units not in need of rehabilitation or with more space. Such shifts in the very-low-income population experiencing housing problems are probably greater among renters than homeowners, and greater among nonelderly households than elderly ones. Finally, available measures of housing conditions have shown that, over the years, an increasing proportion of households pay large shares of income for housing, but this trend has been accompanied by a decreasing proportion living in physically substandard or crowded dwellings.[4] Thus, for some households, paying a large share of their income for housing costs may reflect a choice to live in better, relatively more expensive housing.

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3. Households referred to as lower-income in this paper include both very-low- and low-income households.

4. For an overview of trends in housing conditions, see Congressional Budget Office, *Federal Housing Assistance: Alternative Approaches* (May 1982); and Iredia Irby, "Attaining the Housing Goal?" (unpublished paper, Department of Housing and Urban Development, July 1986).

The remainder of this chapter describes in greater detail the characteristics and housing problems of different types of households that are eligible for housing assistance and compares them with the rest of the population. The analysis provides information on groups that have received special federal attention, such as the elderly and large families. It also compares households in metropolitan and nonmetropolitan locations.

TYPES OF HOUSEHOLDS ELIGIBLE FOR HOUSING ASSISTANCE

Federal housing assistance is available to both renters and homeowners who meet the income-eligibility and other criteria established by statute. Although lower-income households are about evenly divided between renters and homeowners, these two groups differ substantially from each other, and, as a whole, lower-income households differ appreciably from those with higher incomes.

Renters

In 1985, around 54 percent of the 21.7 million very-low-income households and 42 percent of the 14.5 million low-income households rented the dwellings in which they lived. About 28 percent of the very-low-income renters and 15 percent of the low-income renters were households headed by elderly people without children present (see the top panel of Table 2). Approximately 30 percent to 40 percent of all lower-income renters were households headed by a nonelderly person and had no children present. Among very-low-income renters in the nonelderly group without children, 25 percent were families, 63 percent were individuals living alone, and 12 percent were groups of unrelated individuals. The remaining 43 percent of all lower-income rental households included children. Overall, 13 percent of all very-low-income and 9 percent of all low-income rental households had three or more children present. About four-fifths of all lower-income renters lived in metropolitan areas and the remainder in nonmetropolitan areas.

BOX 2
DEFINITIONS OF HOUSEHOLDS' INCOME, DEMOGRAPHIC, AND LOCATIONAL CHARACTERISTICS

INCOME CHARACTERISTICS

The income classification corresponds roughly to the definition used in federal housing assistance programs, which target aid primarily to very-low-income households. Those households, together with low-income households, are referred to here as lower-income households. The income measure employed for classifying most households is family income, which is used in determining eligibility for assistance. Groups of unrelated nonelderly adults, who are generally ineligible for housing assistance (see description of demographic classification below), are classified using household income, because it reflects more accurately the households' ability to pay their housing costs. Median area income corresponds to median area family income, excluding households with one person and groups of unrelated individuals.

Very-Low-Income. A four-person household is classified as very-low-income if its income is less than or equal to 50 percent of the area's median income. Threshold incomes are adjusted for family size. For example, for a one-person household, the threshold is 35 percent, and for an eight-person household it is 66 percent.

Low-Income. A four-person household is classified as low-income if its income ranges from 51 percent to 80 percent of the area's median income. For a one-person household, the range for low-income designation is between 36 percent and 56 percent, while for an eight-person household the range is between 67 percent and 100 percent.

Other. Households that are neither very-low-income or low-income are classified as other and are referred to in this paper as higher-income households.

DEMOGRAPHIC CHARACTERISTICS

The demographic classification stratifies households according to size and age of members. Of these household types, elderly households and large families have received special federal attention.

Elderly Households with No Children. This group consists of households headed by a person age 62 or older without children under the age of 18 present.

Nonelderly Households with No Children. These households are headed by a person less than 62 years old without children under the age of 18 present. Included in this group are families (that is, at least two individuals related by blood or by marriage), two or more unrelated individuals living together, and persons living alone. Households in this group must meet both income and other criteria to be eligible for federal rental assistance. In general, eligibility is restricted to families, to households with handicapped or disabled persons, to persons displaced by government action or federally recognized disaster, or to a person living alone who is the only member of a family to remain in an assisted unit. Assistance to other one-person households may only be provided subject to certain stringent limitations.

Households with One or Two Children. This group consists of households with one or two children under the age of 18 present and can be headed by either an elderly or a nonelderly person. In this paper, these households are frequently referred to as small families.

Households with Three or more Children. This group consists of households with three or more children under the age of 18 present and can be headed by an elderly or a nonelderly person. These households are frequently referred to here as large families--the definition used in federal housing assistance programs.

LOCATIONAL CHARACTERISTICS

The locational classification stratifies households by whether or not they live in metropolitan statistical areas (MSAs) according to the 1985 American Housing Survey (AHS). The AHS's definitions are based on 1983 boundaries of metropolitan areas. Any changes in the number of MSAs or their boundaries since 1983 are therefore not reflected here.

Metropolitan Areas. An MSA is a county or group of contiguous counties that contain either at least one city of 50,000 or more inhabitants, or an urbanized area (as defined by the Census Bureau) with a population of at least 50,000 and a total MSA population of 100,000. Contiguous counties are included in an MSA if they are "socially and economically integrated" with the central city. (In the New England states, MSAs consist of towns and cities instead of counties.)

Nonmetropolitan Areas. All areas that do not meet the definition of MSA are classified as nonmetropolitan.

TABLE 2. CHARACTERISTICS OF RENTERS AND HOMEOWNERS, BY INCOME, 1985

Type of Household	Income			All
	Very-Low-Income	Low-Income	Other	
Renters (Thousands of households)[a]				
Elderly, No Children	3,250	900	940	5,080
Nonelderly, No Children	3,440	2,600	7,920	13,950
Households with 1 or 2 Children	3,460	2,100	3,070	8,630
Households with 3 or More Children	1,570	550	470	2,580
In Metropolitan Areas	9,620	5,130	10,910	25,660
In Nonmetropolitan Areas	2,100	1,010	1,480	4,590
Total	11,720	6,140	12,390	30,250
Renters (As percentage of households in income category)[a]				
Elderly, No Children	28	15	8	17
Nonelderly, No Children	29	42	64	46
Households with 1 or 2 Children	30	34	25	29
Households with 3 or More Children	13	9	4	9
In Metropolitan Areas	82	84	88	85
In Nonmetropolitan Areas	18	16	12	15
Total	100	100	100	100
Homeowners (Thousands of households)				
Elderly, No Children	5,870	3,540	6,840	16,250
Nonelderly, No Children	1,760	1,730	14,450	17,950
Households with 1 or 2 Children	1,640	2,310	13,600	17,550
Households with 3 or More Children	720	770	2,910	4,400
In Metropolitan Areas	6,330	5,720	29,760	41,810
In Nonmetropolitan Areas	3,660	2,630	8,050	14,340
Total	9,990	8,350	37,810	56,150
Homeowners (As percentage of households in income category)				
Elderly, No Children	59	42	18	29
Nonelderly, No Children	18	21	38	32
Households with 1 or 2 Children	16	28	36	31
Households with 3 or More Children	7	9	8	8
In Metropolitan Areas	63	68	79	74
In Nonmetropolitan Areas	37	32	21	26
Total	100	100	100	100

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Very-low-income households are the primary target group of most federal housing assistance programs. Income categories and household types are defined in Box 2.

a. Excludes renters who paid no cash rent.

Compared with higher-income renter households, those with lower incomes were more likely to be headed by elderly persons, to have children present, and to live in nonmetropolitan areas.

Homeowners

In 1985, 10.0 million very-low-income and 8.4 million low-income households owned the units they occupied (see the bottom panel of Table 2). Almost 60 percent of the very-low-income and 42 percent of the low-income homeowners were elderly and had no children present. Households headed by nonelderly people with no children present accounted for about one in five of all lower-income owner-occupants. The remaining 20 percent to 40 percent of all lower-income homeowners had children present, with large families--that is, those with three or more children--making up about one in four of all such households.

Lower-income homeowners on the whole were more likely to be elderly but, unlike the pattern among renters, generally less likely to have children present than were their higher-income counterparts. Also, lower-income homeowners were more likely to live in nonmetropolitan areas than were those with higher incomes.

HOUSING CONDITIONS OF ELIGIBLE HOUSEHOLDS

Paying large shares of income for housing is the problem most commonly faced by lower-income households. Living in physically deficient dwelling units or in crowded quarters are substantial problems, however, among families with children, especially those with three or more children. Moreover, these problems are much more common among lower-income households than among higher-income households. In each income group, renters are worse off than homeowners, and elderly households without children present are generally better off than all other groups. Households in metropolitan areas tend to face all problems--except perhaps living in units in need of repair--more often than their counterparts in nonmetropolitan areas.

High Housing Costs Relative to Income

High shelter costs relative to income are common among all groups of very-low- and low-income households, but the incidence of this problem varies according to tenure (that is, whether the household rents or owns its dwelling unit), household characteristics, and location.

Renters. In 1985, over 12 million renters paid more than 30 percent of their pre-tax incomes for housing costs, as shown in the top panel of Table 3. About 80 percent of all very-low-income renters and more than 40 percent of all low-income renters faced this problem, compared with only 8 percent of higher-income renters.[5]

Among very-low-income renters, the elderly were somewhat less likely than other groups to pay such large shares of income for housing--73 percent compared with 75 percent to 85 percent for other groups. Among the low-income group, however, families with children were least likely to experience this problem. Both very-low-income and low-income renters in metropolitan areas were more likely than their counterparts in nonmetropolitan areas to face this problem.

Homeowners. Although relatively high housing costs are much less prevalent among homeowners than among renters, lower-income homeowners are, again, far more likely to face this problem than are better-off owner-occupants. In 1985, well over half of all very-low-income homeowners and about one-quarter of those with low incomes faced this problem, compared with only 9 percent of those with higher incomes (see the bottom panel of Table 3).

The incidence pattern of this housing problem among various groups of very-low-income homeowners is similar to that among renters. For example, while over 60 percent of all very-low-income homeowners with children paid large shares of income for housing, about half of very-low-income elderly households did. In contrast to the pattern among low-income renters, however, low-income elderly

5. To the extent that households may underreport their income or overstate their housing costs, the number and thus the proportion of households that pay more than 30 percent of their pre-tax income for housing may be overstated by the American Housing Survey.

TABLE 3. HOUSEHOLDS SPENDING OVER 30 PERCENT OF INCOME FOR HOUSING, BY INCOME, TENURE, AND HOUSEHOLD TYPE, 1985

Type of Household	Income			All
	Very-Low-Income	Low-Income	Other	
Renters (Thousands of households)[a]				
Elderly, No Children	2,290	460	160	2,910
Nonelderly, No Children	2,690	1,120	570	4,370
Households with 1 or 2 Children	2,730	820	270	3,810
Households with 3 or More Children	1,130	190	40	1,360
In Metropolitan Areas	7,390	2,320	960	10,680
In Nonmetropolitan Areas	1,440	260	70	1,780
Total	8,840	2,590	1,030	12,450
Renters (As percentage of households in income/demographic category)[a]				
Elderly, No Children	73	51	17	58
Nonelderly, No Children	85	43	7	32
Households with 1 or 2 Children	83	39	9	45
Households with 3 or More Children	75	35	8	54
In Metropolitan Areas	81	45	9	43
In Nonmetropolitan Areas	72	26	5	39
Total	80	42	8	42
Homeowners (Thousands of households)				
Elderly, No Children	2,820	460	230	3,520
Nonelderly, No Children	950	450	1,150	2,550
Households with 1 or 2 Children	870	620	1,280	2,770
Households with 3 or More Children	410	240	360	1,010
In Metropolitan Areas	3,370	1,350	2,660	7,380
In Nonmetropolitan Areas	1,690	430	350	2,470
Total	5,060	1,780	3,010	9,850
Homeowners (As percentage of households in income/demographic category)				
Elderly, No Children	51	14	3	23
Nonelderly, No Children	66	29	9	16
Households with 1 or 2 Children	62	30	10	18
Households with 3 or More Children	66	36	14	26
In Metropolitan Areas	59	25	10	19
In Nonmetropolitan Areas	51	18	5	19
Total	56	23	9	19

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Excludes households for which housing cost-to-income ratios are not computed. Housing costs are defined in Box 1. Income categories and household types are defined in Box 2.

a. Excludes renters who paid no cash rent.

homeowners were much less likely to face this problem than were other types of low-income homeowners.[6] High housing costs were more common among lower-income homeowners in metropolitan areas than among those in nonmetropolitan areas.

Deficiencies in Housing Units

Problems with the physical condition of housing units are much less prevalent than affordability problems among both renters and homeowners.[7]

Renters. Close to 4 million rental units were judged to be in need of rehabilitation in 1985, as shown in the top panel of Table 4. Lower-income renters were more likely than higher-income renters to live in physically deficient dwelling units. In 1985, 18 percent of all very-low-income renters and 14 percent of all low-income renters lived in such units, compared with 8 percent of higher-income renters.

Among lower-income renters, the incidence of deficient housing varies with demographic characteristics but not much with location. For example, in 1985, lower-income renters with large families were more than twice as likely to live in units with some form of deficiency as were lower-income elderly households. While the incidence of deficient housing was similar in metropolitan and nonmetropolitan areas, the most serious deficiencies, such as lack of complete plumbing or kitchen facilities, tended to be more common in nonmetropolitan areas. In particular, of all deficient units in nonmetropolitan areas occupied by very-low-income renters, 27 percent lacked complete plumbing and 28 percent lacked complete kitchens, compared with 9 percent and 17 percent, respectively, in metropolitan areas.

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6. This pattern is largely explained by the relatively high proportion of elderly homeowners who do not have a mortgage on their property. For example, among very-low-income households, 89 percent of all elderly owner-occupants owned their homes free and clear, compared with 62 percent of nonelderly homeowners without children present, 50 percent of homeowners with one or two children present, and 37 percent of homeowners with three or more children present.

7. The CBO index for identifying units in need of rehabilitation produces estimates similar to those derived by Iredia Irby, "Attaining the Housing Goal?" The CBO index is somewhat stricter for rental units and somewhat less strict for owner-occupied units than the HUD index.

TABLE 4. HOUSEHOLDS LIVING IN UNITS REQUIRING REHABILITATION, BY INCOME, TENURE, AND HOUSEHOLD TYPE, 1985

Type of Household	Income			
	Very-Low-Income	Low-Income	Other	All
Renters (Thousands of households)[a]				
Elderly, No Children	350	70	80	500
Nonelderly, No Children	650	380	620	1,650
Households with 1 or 2 Children	650	310	270	1,230
Households with 3 or More Children	410	90	40	540
In Metropolitan Areas	1,740	740	890	3,370
In Nonmetropolitan Areas	320	110	110	540
Total	2,050	850	1,010	3,910
Renters (As percentage of households in income/demographic category)[a]				
Elderly, No Children	11	8	8	10
Nonelderly, No Children	19	14	8	12
Households with 1 or 2 Children	19	15	9	14
Households with 3 or More Children	26	17	9	21
In Metropolitan Areas	18	14	8	13
In Nonmetropolitan Areas	15	11	8	12
Total	18	14	8	13
Homeowners (Thousands of households)				
Elderly, No Children	390	120	150	660
Nonelderly, No Children	150	90	430	660
Households with 1 or 2 Children	170	130	350	640
Households with 3 or More Children	110	60	100	270
In Metropolitan Areas	450	280	770	1,490
In Nonmetropolitan Areas	370	120	250	740
Total	810	400	1,020	2,230
Homeowners (As percentage of households in income/demographic category)				
Elderly, No Children	7	3	2	4
Nonelderly, No Children	8	5	3	4
Households with 1 or 2 Children	10	6	3	4
Households with 3 or More Children	16	7	3	6
In Metropolitan Areas	7	5	3	4
In Nonmetropolitan Areas	10	5	3	5
Total	8	5	3	4

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Units requiring rehabilitation are defined in Box 1. Income categories and household types are defined in Box 2.

a. Excludes renters who paid no cash rent.

Homeowners. Although physically deficient units are less common among homeowners than among renters, the relative incidence of substandard units among very-low-income homeowners is, again, higher than among better-off owner-occupants. In 1985, 8 percent of all very-low-income homeowners lived in units needing repairs--one and one-half times the rate among low-income homeowners and almost three times the rate among higher-income homeowners (see the bottom panel of Table 4).

Among lower-income homeowners, those with large families were more than twice as likely to live in substandard units as were elderly households without children. In contrast to the pattern among renters, units occupied by very-low-income homeowners in nonmetropolitan areas were more likely than those in metropolitan areas to need some form of repair. Moreover, the frequency of serious deficiencies in nonmetropolitan areas was substantially higher than in metropolitan areas. Of all the units judged in need of rehabilitation and occupied by very-low-income homeowners in nonmetropolitan areas, 30 percent lacked complete plumbing and 20 percent lacked complete kitchens, compared with 10 percent and 15 percent, respectively, in metropolitan areas.

Crowded Housing Conditions

In the aggregate, crowding is the least common housing problem today. Among families with three or more children, however, the problem remains widespread--particularly among renters--and is more common than substandard housing conditions.

Renters. In 1985, only 7 percent of all renters were living in crowded units--those with more than two persons per bedroom (see the top panel of Table 5). Even among lower-income renters, less than one in ten households experienced crowded housing conditions. Within all income groups, however, crowding remained a common problem for renters with three or more children present, affecting 35 percent of large families with very low incomes, 40 percent of those with low

TABLE 5. HOUSEHOLDS LIVING IN UNITS WITH MORE THAN TWO PERSONS PER BEDROOM, BY INCOME, TENURE, AND HOUSEHOLD TYPE, 1985

Type of Household	Income			All
	Very-Low-Income	Low-Income	Other	
Renters (Thousands of households)[a]				
Elderly, No Children	10	10	10	30
Nonelderly, No Children	70	70	100	240
Households with 1 or 2 Children	380	250	190	830
Households with 3 or More Children	550	220	130	900
In Metropolitan Areas	880	510	400	1,790
In Nonmetropolitan Areas	140	30	40	210
Total	1,020	540	430	1,990
Renters (As percentage of households in income/demographic category)[a]				
Elderly, No Children	b	1	1	1
Nonelderly, No Children	2	3	1	2
Households with 1 or 2 Children	11	12	6	10
Households with 3 or More Children	35	40	28	35
In Metropolitan Areas	9	10	4	7
In Nonmetropolitan Areas	7	3	2	4
Total	9	9	3	7
Homeowners (Thousands of households)				
Elderly, No Children	10	b	b	10
Nonelderly, No Children	10	b	30	40
Households with 1 or 2 Children	40	50	150	240
Households with 3 or More Children	200	160	310	670
In Metropolitan Areas	170	150	390	710
In Nonmetropolitan Areas	80	70	110	260
Total	260	210	490	970
Homeowners (As percentage of households in income/demographic category)				
Elderly, No Children	b	b	b	b
Nonelderly, No Children	b	b	b	b
Households with 1 or 2 Children	2	2	1	1
Households with 3 or More Children	28	21	11	15
In Metropolitan Areas	3	3	1	2
In Nonmetropolitan Areas	2	3	1	2
Total	3	3	1	2

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Income categories and household types are defined in Box 2.

a. Excludes renters who paid no cash rent.

b. Fewer than 5,000 households or less than 0.5 percent.

incomes, and 28 percent of those with higher incomes.[8] Crowding was more common among lower-income renters in metropolitan than in nonmetropolitan areas.

The fact that crowding is relatively widespread among large families even when they have higher incomes may be evidence of a general shortage of large units in the rental stock.[9] On the other hand, some large families may not perceive more than two persons sharing a bedroom as a problem, particularly if it involves young children.

Homeowners. In 1985, no more than 3 percent of all homeowners in each income group experienced crowded living quarters, as shown in the bottom panel of Table 5. As was the case for renters, this problem was much more common among large families, with more than 20 percent of all lower-income families with three or more children lacking sufficient space under the definition used here. The differences in crowding between metropolitan and nonmetropolitan areas were negligible.

Overlapping Housing Problems Among Very-Low-Income Renters

This section describes in somewhat more detail the housing conditions of very-low-income renters--the primary target group of current housing assistance programs.[10] In 1985, over 80 percent of all very-low-income renters experienced one or more of the three housing problems examined here (see Table 6).[11] Very-low-income elderly

8. The Bureau of the Census definition of crowding (more than one person per room) produces even higher estimates of crowding for all renters with three or more children (37 percent compared with 35 percent) but a lower estimate for those with one or two children (4 percent compared with 10 percent).

9. Some evidence supporting the hypothesis of local shortages of physically standard units that are large enough to allow no more than two persons per bedroom is presented in Grace Milgram, *Existing Housing Resources versus Need* (Congressional Research Service, January 1987).

10. See Appendix A for comparable details about higher-income renters and homeowners in all income categories.

11. About 4 million households received rental assistance in 1985. It seems reasonable to assume, therefore, that of the 1.7 million very-low-income renters without any problems, the vast majority had no problems because of this assistance. The actual number of households without problems may be understated, however, because households for which housing cost-to-income ratios are not computed are excluded from this analysis, reducing the total number of very-low-income renters from 11.7 million to 11.1 million.

TABLE 6. VERY-LOW-INCOME RENTERS WITH MULTIPLE HOUSING PROBLEMS, 1985

Housing Condition	Elderly, No Children	Nonelderly, No Children	Households With 1 or 2 Children	Households With 3 or More Children	All
			Thousands of Households		
No Problems	750	360	420	200	1,740
Costly, but Physically Adequate	2,040	2,150	1,970	570	6,740
Costly and Physically Inadequate					
Substandard	230	480	440	160	1,310
Crowded	10	30	230	250	530
Both	a	20	80	150	250
Subtotal	240	540	750	570	2,100
Physically Inadequate, but Not Costly					
Substandard	100	110	70	60	320
Crowded	a	20	40	100	150
Both	a	a	20	30	50
Subtotal	100	120	120	180	520
Total	3,130	3,170	3,270	1,520	11,090
			As Percentage of Households in Demographic Category		
No Problems	24	11	13	13	16
Costly, but Physically Adequate	65	68	60	37	61
Costly and Physically Inadequate					
Substandard	7	15	14	10	12
Crowded	a	1	7	17	5
Both	a	1	2	10	2
Subtotal	8	17	23	37	19
Physically Inadequate, but Not Costly					
Substandard	3	3	2	4	3
Crowded	a	a	1	7	1
Both	a	a	1	2	a
Subtotal	3	4	4	12	5
Total	100	100	100	100	100

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Excludes renters who paid no cash rent and renters for whom housing cost-to-income ratios are not computed. Housing conditions are defined in Box 1. Household types are defined in Box 2.

a. Fewer than 5,000 households or less than 0.5 percent.

renters fared better in this respect than did all other groups. Around 76 percent of these elderly households faced at least one of these problems, compared with almost 90 percent of all other households. The elderly may face other shortcomings in their living arrangements, however, such as the absence of social and physical support services needed by aging households in order to maintain decent independent living arrangements.

Paying a large share of income for housing is, in general, the most widespread housing problem among very-low-income renters. In 1985, about 80 percent faced this problem--alone or in conjunction with other problems. In fact, it was the only problem for well over half of all very-low-income renters, including elderly households, small families with children, and nonelderly households without children. Among large families, however, only about one-third experienced relatively high housing costs as their only problem.

About one-fifth (2 million) of all very-low-income renters spent over 30 percent of their income for rent and also lived in units that were substandard or crowded. Elderly households were the least likely to be in this category--8 percent compared with 23 percent of small families and 37 percent of large families. Unlike other groups, families with three or more children were much more likely to be in this predicament because of crowding than because of rehabilitation needs.

Only 5 percent of all very-low-income renters lived in units that were physically inadequate but that did not require a large share of their income for rent. Large families with children were more likely to fall in this category than were other groups. Many of the households in this category may have traded off greater consumption of other goods and services for housing of lower quality.

Thus, while between 70 percent and 90 percent of most groups of households that paid relatively high housing costs lived in physically adequate housing, only half of large families paying a large share of income for housing lived in adequate quarters. Many families with children probably faced this combination of problems because their income was so low that even renting substandard or relatively small dwellings consumed a large portion of their income--not because rents were high. This hypothesis seems particularly plausible in view of the finding that relatively few low-income and higher-income families

with children that lived in physically inadequate units spent more than 30 percent of their income for rent--for example, only 25 percent of all large low-income families did so (see Appendix A) compared with 76 percent of those with very low incomes. Finally, the fact that such relatively large proportions of families with children lived in substandard or crowded units--27 percent of small families and 49 percent of large families--may imply that some of them, even when spending a large share of their income on housing, cannot find physically standard units with adequate space or may not have access to better housing because of barriers in the housing market. These barriers would include racial segregation and private landlords who exclude families with children from rental complexes.

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CHAPTER III

FEDERAL HOUSING ASSISTANCE AND ITS DISTRIBUTION

A number of federal programs administered by the Department of Housing and Urban Development (HUD) and the Farmers Home Administration (FmHA) address the housing needs of lower-income households. Housing assistance has never been provided as an entitlement to all households that qualify for aid. Instead, each year the Congress has appropriated funds for a number of new commitments. Because these commitments generally run from 5 to 50 years, the appropriation is actually spent gradually, over many years. These additional commitments have expanded the pool of available aid, thus increasing the total number of households that can be served. They have also contributed to growth in federal outlays in the past and have committed the government to continuing expenditures for many years to come.

The number of additional commitments funded annually has been cut back in recent years, and the nature and mix of assistance programs has changed. These shifts have, in turn, affected the distribution of available aid. This chapter describes recent trends in the number and mix of new commitments, as well as trends in expenditures. It then discusses the current distribution of housing assistance among various groups of households and what this distribution implies about the relative rates at which these groups are served.

TRENDS IN FEDERAL HOUSING ASSISTANCE

The federal government provides housing aid to lower-income households in the form of rental subsidies and mortgage-interest subsidies. Over the past decade, both the number of households receiving aid and total federal expenditures have increased each year, but the growth in outstanding commitments has slowed significantly during the 1980s.

Types of Housing Assistance

A number of different housing assistance programs have evolved in response to changing housing policy objectives (see Table 7 for an overview of the major federal housing assistance programs). While the primary purpose of housing assistance has always been to improve housing quality and to reduce housing costs for lower-income households, other goals have included promoting residential construction, expanding housing opportunities for disadvantaged groups and groups with special housing needs, promoting neighborhood preservation and revitalization, and increasing homeownership.

New housing programs have been developed over time because of shifting priorities among these objectives--as housing-related problems changed--and because of the relatively high federal costs associated with some approaches. Other programs have become inactive in that the Congress stopped appropriating funds for new assistance commitments through them. Because housing programs traditionally have involved multiyear contractual obligations, however, these so-called inactive programs continue to play an important role today by serving a large number of households through commitments for which funds were appropriated some time ago.

Rental Assistance. Most federal housing aid is now targeted to very-low-income renters through the rental assistance programs administered by HUD and the FmHA.[1] Rental assistance is provided through two basic approaches:

- Project-based aid, which is typically tied to projects specifically produced for lower-income households through new construction or substantial rehabilitation; and

- Household-based subsidies, which permit renters to choose standard housing units in the existing private housing stock.

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1. For a more detailed description of the various types of programs, see Congressional Budget Office, *Federal Housing Assistance: Alternative Approaches* (May 1982); or National Association of Homebuilders, *Low- and Moderate-Income Housing: Progress, Problems and Prospects* (Washington, D.C.: NAHB, 1986).

Some funding is also provided each year to modernize units built with federal aid. Rental assistance programs generally reduce tenants' rent payments to a fixed percentage--currently 30 percent--of their income after certain deductions, with the government paying the remaining portion of the dwellings' costs.

Almost all project-based aid is provided through production-oriented programs, which include the public housing program, the Section 8 new construction and substantial rehabilitation program, and the Section 236 mortgage-interest-subsidy program--all administered by HUD--and the Section 515 mortgage-interest-subsidy program administered by the FmHA.[2] New commitments are being funded through three of the four--the public housing program, the Section 8 new construction program, and the Section 515 program. Under Section 8, however, new aid is being provided only for elderly and handicapped households through the so-called Section 202/8 program. In addition, a small amount of assistance is funded annually under two recently authorized HUD programs--the rental housing development grants (HoDAG) and the rental rehabilitation block grant program.[3] These programs distribute funds through a national competition and by formula, respectively, to units of local government that meet eligibility criteria established by statute.

Some project-based aid is also provided through several components of HUD's Section 8 existing-housing program, which tie subsidies to specific units in the existing-housing stock, many of which have received other forms of aid or mortgage insurance through HUD. These components--all of which are currently active--include the Section 8 loan management set-aside (LMSA) and property disposition (PD) components, which are designed to improve cash flows in selected financially troubled projects that are or were insured by the Federal Housing Administration (FHA); the Section 8 conversion assistance component, which subsidizes units that were previously aided through other programs; and the Section 8 moderate rehabilitation program, which provides subsidies tied to units that are brought up to standard by the owner.

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2. A small number of renters continue to receive project-based subsidies through the now inactive Section 221(d)(3) below-market interest rate (BMIR) and rent supplement programs.

3. The Housing and Community Development Act of 1987 terminates the HoDAG program at the end of fiscal year 1989.

TABLE 7. OVERVIEW OF MAJOR FEDERAL PROGRAMS FOR DIRECT HOUSING ASSISTANCE, IN CHRONOLOGICAL ORDER

Program	Year Authorized	Status	Type of Subsidy	Description
			Rental Assistance Programs	
Public Housing	1937	Active	Project-based	Pays for developing and modernizing projects owned by local PHAs. Before 1987, funds paid off debt-service costs over 20 to 40 years. Costs are now financed with up-front grants. Since 1969, has also paid the difference between the projects' operating costs and rent collections.
Section 202	1959	Active	Project-based	Provides loans for up to 40 years to nonprofit sponsors to finance construction of rental housing for the elderly and handicapped. All projects built since 1974 also receive Section 8 rental subsidies.
Section 221(d)(3) Below-Market Interest Rate (BMIR)	1961	No new commitments since 1968	Project-based	Provides up-front subsidies that reduced to 3% the interest rate on private 40-year mortgages for multifamily rental housing built by nonprofit or limited-dividend organizations. Reduces rents for income-eligible tenants.
Section 515 Rural Rental Assistance	1962	Active	Project-based	FmHA provides 50-year direct loans to developers at 1% interest. Reduces rents for income-eligible tenants. Some very poor tenants receive supplementary assistance through the rural RAP and Section 8 programs.
Rent Supplement	1965	No new commitments since 1973	Project-based	Reduces rents for income-eligible tenants in housing projects insured under certain FHA mortgage insurance programs. Most outstanding commitments have been converted to Section 8 assistance.
Section 236	1968	No new commitments since 1973	Project-based	Provides monthly subsidies that reduce to 1% the interest rate on private 40-year mortgages for new multifamily rental projects. Reduces rents for income-eligible tenants. Since 1974, some tenants get larger subsidies through the RAP program. Many RAPs have been converted to Section 8 assistance.

SOURCE: Congressional Budget Office compilation from various sources.

NOTES: n.a. = not applicable; FHA = Federal Housing Administration; FmHA = Farmers Home Administration; FMR = Fair Market Rent; HUD = Department of Housing and Urban Development; PHA = public housing agency; RAP = rental assistance payment program.

(Continued)

TABLE 7. Continued

Household Payment	Households Assisted as of 9/30/87 (Thousands)	Funding for Fiscal Year 1989
Rental Assistance Programs (Continued)		
Generally 30% of adjusted income	1,390	$433 million for 6,243 new units; $1,647 million for modernization; and $1,618 million for operating subsidies.
Generally 30% of adjusted income	153	$480 million of loan authority for 9,500 new units.
Fixed rent sufficient to cover mortgage payments and other allowable costs	150	n.a.
Generally, the greater of a basic rent covering mortgage payments and allowable costs, or 30% of adjusted income	349	$555 million of loan authority for about 16,700 new units.
The greater of 30% of adjusted income or 30% of unit's rent	23	n.a.
Similar to Section 515	528	n.a.

a. No reliable data are available for separate breakouts of households assisted by Section 8 loan management, property disposition, and conversion assistance. The figure of 414,000 is the total for all three components.

b. Number of units targeted specifically for lower-income households and for which funds had been obligated. Funds for a total of 24,000 units have been obligated through 1987.

c. Estimated number of units occupied by lower-income households. A total of 41,638 units were completed with grants through 1987.

(Continued)

TABLE 7. Continued

Program	Year Authorized	Status	Type of Subsidy	Description
		Rental Assistance Programs (Continued)		
Section 8 New Construction and Substantial Rehabilitation	1974	No new commitments since 1983, except for elderly and handicapped families	Project-based	Provide rental subsidies to income-eligible households in new or substantially rehabilitated projects. Subsidy covers the difference between tenants' payments and FMR, determined by HUD and based initially on capital and operating costs. Subsidy contracts for 20 to 40 years commit owners to set aside a certain number of units for lower-income households for a period of time. Tax incentives and financing arrangements also may reduce owners' effective mortgage interest rates.
Section 8 Loan Management Set-Aside and Property Disposition	1974	Active	Project-based	Provide subsidies to units in financially troubled projects in the FHA-insured inventory and on sale of HUD-owned projects, respectively. Five-to-fifteen-year subsidy contracts with owners help ensure improved cash flows and preserve projects for lower-income tenants. Subsidies cover the difference between tenants' payments and the units' rents, which often are below-market rents because of other federal subsidies.
Section 8 Conversion Assistance	1974	Active	Project-based	Provides 15-year subsidies to some dwelling units in projects formerly aided through other types of programs--primarily the rent supplement and RAP programs. Subsidy mechanism similar to Section 8 loan management.
Section 8 Existing-Housing Certificates	1974	Active	Household-based	Aids income-eligible households, who can choose any existing unit that meets the program's property standards and whose rent does not exceed the FMR. HUD pays difference between units' actual rents and tenants' payments, with funding committed for 5 to 15 years. Administered by local PHAs, who enter contracts with landlords.
Section 8 Moderate Rehabilitation	1979	Active	Project-based	Aids households in existing units brought up to standard with modest repairs. Differs from Section 8 existing-housing program only in that aid is tied to the rehabilitated unit whose rent is limited to 125% of the local FMR for existing units.

(Continued)

TABLE 7. Continued

Household Payment	Households Assisted as of 9/30/87 (Thousands)	Funding for Fiscal Year 1989
	Rental Assistance Programs (Continued)	
Generally 30% of adjusted income	794	$1,325 million for 9,500 new units.
Generally 30% of adjusted income	414 [a]	$453 million for 10,657 new units.
Generally 30% of adjusted income	a	No new funds appropriated.
Generally 30% of adjusted income	874	$542 million for 18,000 new units with 5-year terms and $30 million for 333 new units with 15-year terms designed to replace units lost because of public housing demolition.
Generally 30% of adjusted income	76	$323 million for 2,942 new units and $45 million for 1,270 single-room-occupancy units for the homeless.

(Continued)

TABLE 7. Continued

Program	Year Authorized	Status	Type of Subsidy	Description
			Rental Assistance Programs (Continued)	
Section 8 Vouchers	1983	Active	Household-based	Similar to Section 8 certificate program in that assisted households can live in standard units of their choosing and PHAs administer the program. Unlike certificates in that recipients may occupy units with rents above the voucher payment standard--roughly equivalent to the FMR--if they pay the difference, and may keep the difference if rents are below the payment standard. Funding committed for 5 years.
Rental Housing Development Grant (HoDAG)	1983	Terminates 9/30/89	Project-based	Awards grants through national competitions among eligible state and local governments to help finance new construction and substantial rehabilitation of rental housing. Projects must reserve at least 20% of units for 20 years for lower-income tenants; grants cannot exceed 50% of total costs of developing the projects.
Rental Rehabilitation Grants	1983	Active	Project-based	Distributes grants by formula to eligible units of government to help fund moderate rehabilitation of rental housing. Also provides vouchers to current lower-income tenants who may choose to remain in the building or to relocate. Grants generally limited to between $5,000 and $8,500 per unit, depending on number of bedrooms, and cannot exceed 50% of the total rehabilitation. At least 70% of units must be occupied by lower-income households, with specified shares going to large families.
			Homeownership Assistance Programs	
Section 502 Rural Housing Loans	1949	Active	n.a.	Provides reduced-interest (as low as 1%) direct loans, generally with 33-year terms, to rural lower-income homebuyers. Households with incomes somewhat above income-eligibility cutoff (80% of area's median income adjusted for family size) may obtain direct loans roughly at the long-term federal borrowing rate, which is typically below private mortgage rates.
Section 235 Mortgage-Interest Subsidies	1968	Terminates 9/30/89	n.a.	Provides mortgage insurance and interest subsidies to private lenders on behalf of low- and moderate-income homebuyers--those with incomes below 95% of area's median income adjusted for family size. Characteristics have changed several times, with subsidies becoming more limited and their term being reduced. As authorized in 1983, interest subsidies are provided for 10 years, and the implicit interest rate cannot fall below 4%.

TABLE 7. Continued

Household Payment	Households Assisted as of 9/30/87 (Thousands)	Funding for Fiscal Year 1989
Rental Assistance Programs (Continued)		
Generally 30% of adjusted income plus or minus the difference between units' rents and payment standard	82	$1,276 million for 47,000 new units and $79 million for 3,099 units replacing units lost because of landlords' opting out of programs or expiring contracts.
No more than 30% of adjusted income of a family whose gross income equals 50% of area median income, adjusted for family size	7 [b]	No new funds appropriated.
Similar to HoDAG	39 [c]	$150 million.
Homeownership Assistance Programs (Continued)		
At least 20% of adjusted income for mortgage payments, property taxes, and insurance	899	$1,287 million in loan authority for about 27,000 loans.
At least 28% of adjusted income for mortgage payments, property taxes, and insurance	159	No new funds appropriated.

Household-based subsidies are provided through two other components of the Section 8 existing-housing program--Section 8 certificates and vouchers. These programs, both of which are currently active, tie aid to households, who choose standard units in the private housing stock. Certificate holders must occupy units whose rents at initial occupancy are within guidelines--the so-called Fair Market Rents (FMRs)--established by HUD. Voucher recipients, however, are allowed to occupy units with rents above the HUD guidelines, provided that they pay the difference.

Homeowners' Assistance. Each year, the federal government also assists some lower- and moderate-income households in becoming homeowners by making long-term commitments to reduce their mortgage interest.[4] Most of this aid has been provided through the Section 502 program administered by the FmHA, which itself supplies mortgage loans at low interest rates roughly equal to the long-term government borrowing rates. Many homebuyers, however, receive much deeper subsidies through the interest-credit component of this program, which reduces their effective interest rate to as low as 1 percent. A number of homebuyers have received aid through the Section 235 program administered by HUD, which provides interest subsidies for mortgages financed by private lenders. New commitments are now being made only through the Section 502 program, but a small number of homeowners continue to receive aid from prior commitments made under the Section 235 program.[5] Both programs generally reduce mortgage payments, property taxes, and insurance costs to a fixed percentage of income, ranging from 20 percent for the FmHA program to 28 percent for the latest commitments made under the HUD program. Households with relatively low incomes would have to pay larger shares, however, since mortgage payments must cover a minimum interest rate--currently 1 percent and 4 percent for the FmHA and HUD programs, respectively.

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4. In addition, a small number of very-low-income homeowners receive grants or loans each year from the FmHA for housing repairs.

5. The Housing and Community Development Act of 1987 terminates the Section 235 program at the end of fiscal year 1989.

Trends in Commitments for Housing Assistance

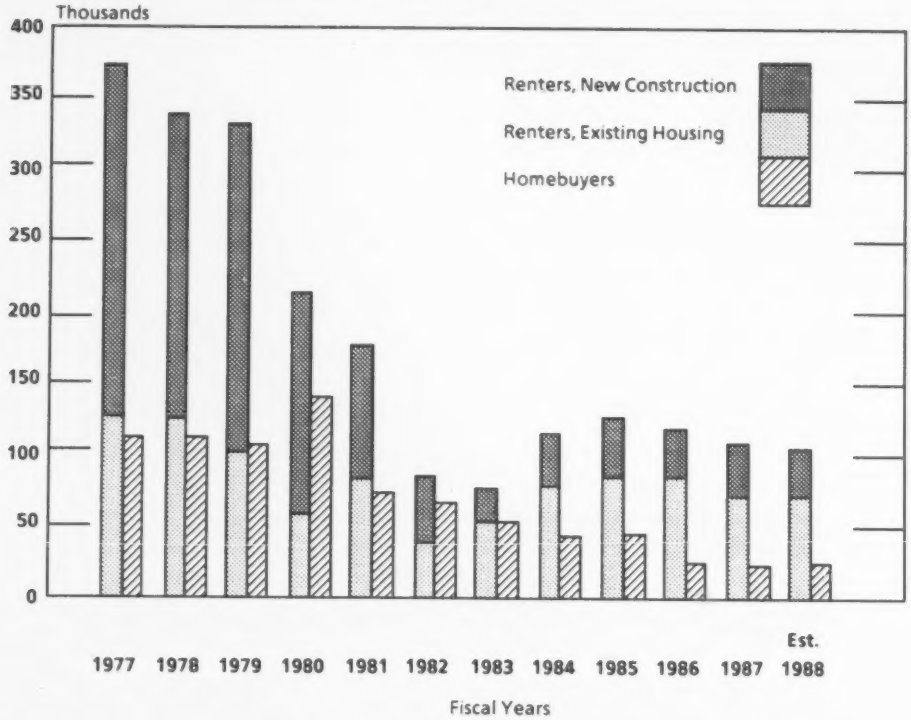
Although the federal government has been subsidizing the shelter costs of lower-income households since 1937, more than half of all currently outstanding commitments were funded over the past 12 years. Between 1977 and 1988, about 2.2 million net new commitments were funded to aid lower-income renters. Another 0.8 million new commitments were provided in the form of mortgage assistance to lower- and moderate-income homebuyers. Between 1977 and 1983, the number of net new rental commitments funded each year declined steadily, however, from 375,000 to 78,000. Trends have been somewhat erratic since 1983. Over the 12-year period, commitments for new homebuyers generally decreased, ranging from 140,000 in 1980 to about 24,000 in 1987 (see Figure 1).

The production-oriented approach in rental programs has been sharply curtailed in recent years in favor of the less costly Section 8 existing-housing and voucher programs. Between 1977 and 1982, commitments through programs for new construction and substantial rehabilitation ranged annually from 53 percent to 73 percent of the total; since then, however, they have made up one-third or less of all additional rental commitments.

The relative emphasis on new construction compared with rental rehabilitation and repair programs has fluctuated over the years. Most recently, the Congress has shifted funding away from new construction in favor of rehabilitation. The 1987, 1988, and 1989 appropriations included more than twice as much funding for modernization of public housing projects compared with 1986, while the 1989 funding level for additional newly constructed units is roughly the same as the 1986 level. In 1987, the rental rehabilitation program received twice the amount that was provided under HoDAG, a new construction program, while in 1988 and 1989 HoDAG funding was virtually phased out.

The total number of households receiving assistance has increased substantially, from 3.2 million at the beginning of fiscal year 1977 to 5.4 million at the beginning of fiscal year 1988--a 69 percent increase (see Figure 2). This increase results largely from net new commitments over the past 12 years, but also from commitments made before

Figure 1.
Net New Commitments for Renters and New Commitments for Homebuyers, 1977-1988



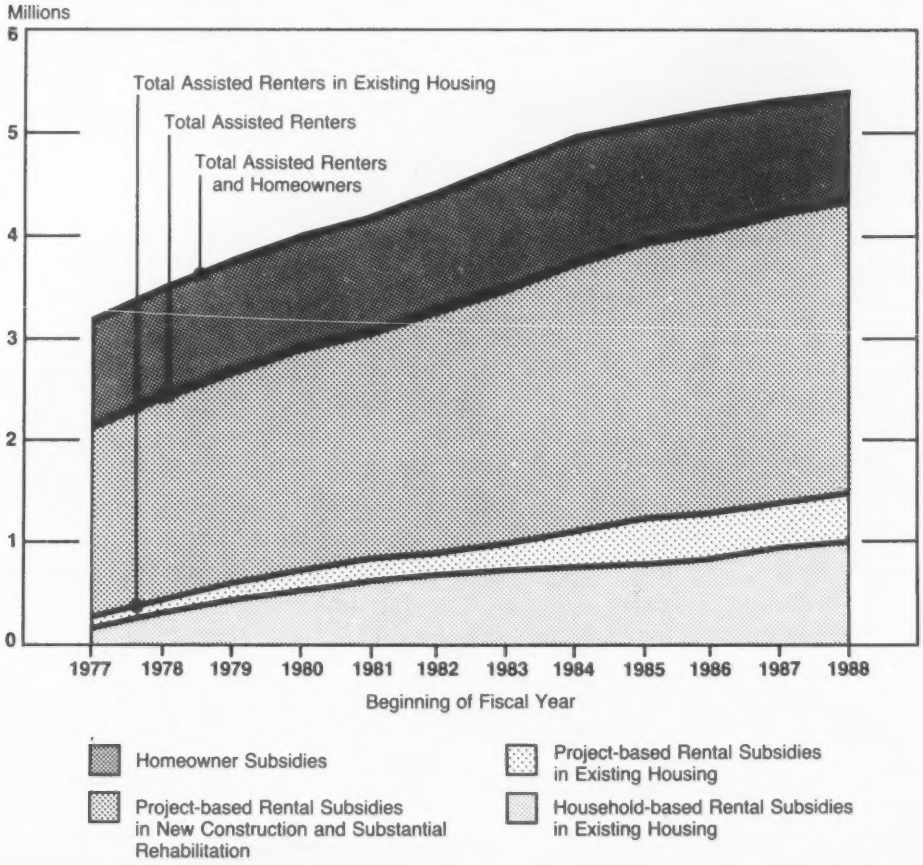
SOURCE: Congressional Budget Office based on data provided by the Department of Housing and Urban Development and the Farmers Home Administration.

NOTE: Net new commitments for renters represent net additions to the available pool of rental aid and are defined as the total number of commitments for which new funds are appropriated in any year. To avoid double-counting, these numbers are adjusted for the number of commitments for which funds are deobligated or canceled that year; the number of commitments for units converted from one type of assistance to another; in the FmHA Section 515 program, the number of units that receive more than one subsidy; and, starting in 1985, the number of commitments specifically designed to replace those lost because private owners of assisted housing opt out of the programs or because public housing units are demolished.

New commitments for homebuyers are defined as the total number of new loans that the FmHA may make (or that HUD may subsidize) each year based on the maximum lending authority set by the Congress. This measure of program activity is meant to indicate how many new homebuyers can be helped each year and is therefore not adjusted to account for homeowners who leave the programs in any year because of mortgage repayments, prepayments, or foreclosures. Thus, it does not represent net additions to the total number of assisted homeowners and therefore cannot be added to net new commitments for renters.

1977 that have been processed during this period. The number of households receiving rental subsidies increased from 2.1 million to 4.3 million, while the number of homeowners receiving assistance in a given year remained virtually unchanged at between 1.1 million and 1.2 million. The latter pattern reflects commitments for newly

Figure 2.
Total Households Receiving Assistance, By Type of Subsidy, 1977-1988



SOURCE: Congressional Budget Office based on data provided by the Department of Housing and Urban Development and the Farmers Home Administration.

NOTE: Figures for total assisted renters have been adjusted since 1980 to avoid double-counting households receiving more than one subsidy.

assisted households being offset by loan repayments, prepayments, and foreclosures among previously assisted households. Thus, the proportion of all assisted households that receives homeownership assistance has declined from 34 percent at the beginning of 1977 to less than 20 percent at the beginning of 1988. Among rental assistance programs, the shift away from production-oriented programs toward existing housing is reflected in the increasing proportion of renters receiving aid through the latter approach, from 13 percent at the beginning of fiscal year 1977 to 34 percent at the beginning of 1988, with the proportion of renters receiving household-based subsidies increasing from 8 percent to 22 percent.

The Budgetary Effects of Housing Assistance

Funding for most additional commitments for housing assistance is provided each year through appropriations of long-term budget authority--that is, the authority to commit the government to future expenditures--for subsidies to households and through appropriations of lending authority for direct loans to homebuyers and developers of rental housing.[6] Conceptually, the additional budget authority is added to the unspent balances of budget authority appropriated in previous years. The amount of budget authority needed per commitment varies with the type of program and depends on the relative size of the subsidy--which typically equals the difference between the unit's rent and the household's contribution--and how long the government agrees to provide the subsidy. For example, budget authority requirements for commitments to build new housing tend to be relatively high, because rents in newly constructed projects are high and because commitments are usually made for long periods of time, currently ranging from 20 years for HUD's Section 202/8 program to 50 years for FmHA's Section 515 program. By contrast, budget authority requirements for vouchers are relatively low, because rents for existing housing are comparatively low and because commitments last for only five years.

6. Additional assistance through the public housing program, however, is currently funded with up-front grants for the construction and modernization of the units and annual appropriations for operating subsidies.

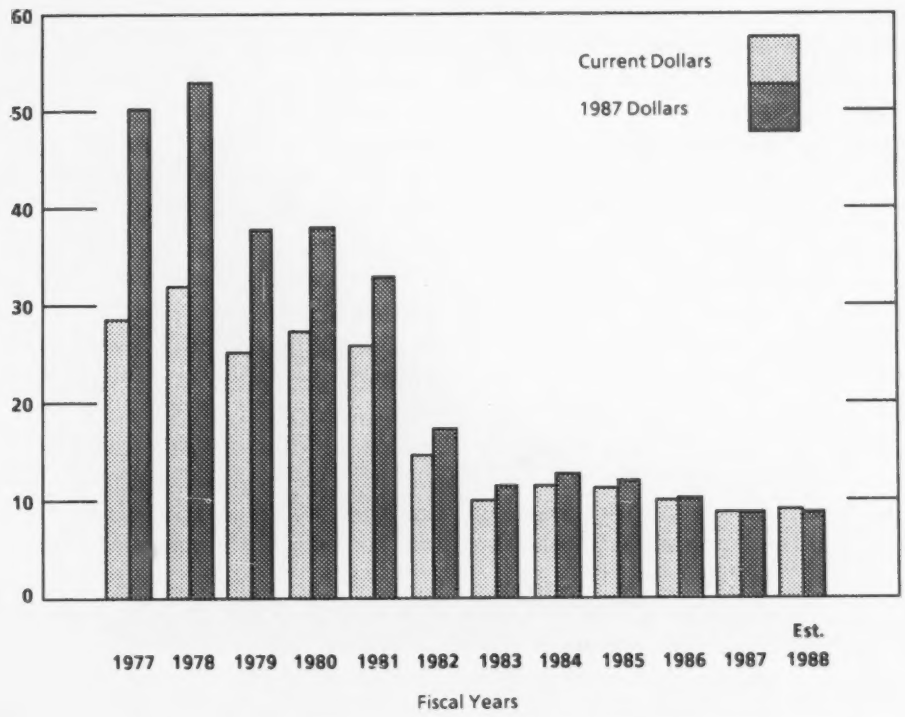
Annual federal outlays for housing assistance reflect expenditures on behalf of all households actually receiving aid in a given year. Outlays in any given year are predominantly funded by liquidating part of the unspent balances of long-term budget authority appropriated in past years. Thus, new commitments contribute very little to outlays in the year in which they are funded, both because of the relatively small proportion of total outstanding commitments that they represent and especially because of the processing time, which can extend over periods of more than five years for some new construction programs and can delay the actual outflow of funds.

Annual appropriations of new budget authority for housing assistance have been cut dramatically over the past decade. These cuts reflect four underlying factors: the previously mentioned reduction in the number of newly assisted households; the shift toward cheaper existing-housing assistance; a systematic reduction in the average term of new commitments from more than 24 years in 1977 to less than 12 years in 1988; and, since 1987, the change in the method for financing the construction and modernization of public housing.[7] For HUD's programs alone, appropriations of budget authority declined (in 1987 dollars) from a high of $53 billion in 1978 to $9 billion in 1988 (see Figure 3). Similarly, new lending authority for FmHA's direct loan programs decreased (in 1987 dollars) from a high of $5.7 billion in 1979 to $1.7 billion in 1988.

On the other hand, with the continuing increase in the number of households served, total outlays for all housing assistance programs combined have risen steadily (in 1987 dollars), from $5.7 billion in fiscal year 1977 to $15.3 billion in fiscal year 1987, an increase of almost 170 percent (see Figure 4). Moreover, despite recent measures to contain costs, such as those mentioned above, and the increase in household contributions from 25 percent to 30 percent of adjusted income, average federal outlays per unit for all programs combined have generally continued to rise in real terms, from around $1,700 in 1977 to around $2,900 in 1987--an increase of almost 70 percent (see

7. Before 1987, new commitments for the construction and modernization of public housing were financed over periods ranging from 20 to 40 years, with the appropriations for budget authority reflecting both the principal and interest payments for this debt. Starting in 1987, these activities are financed with up-front grants, which reduces their budget authority requirements by between 51 percent and 67 percent.

Figure 3.
Net Budget Authority Appropriated for Housing Aid, 1977-1988 (In billions of current and 1987 dollars)



SOURCE: Congressional Budget Office, based on data provided by the Department of Housing and Urban Development.

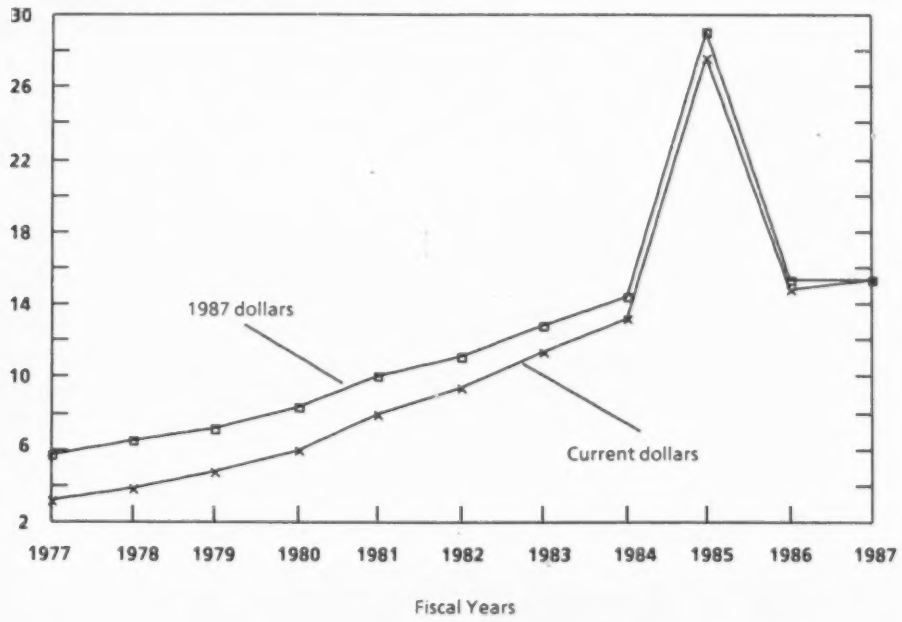
NOTE: All figures are net of funding rescissions. Totals include funds appropriated for public housing operating subsidies. Excludes programs administered by the Farmers Home Administration.

Figure 5).[8] Several factors have contributed to this growth. First, the number of households that occupy units completed under the Section 8 new construction program has risen. These recently constructed units

8. The change in the method for financing the construction and modernization of public housing caused a large one-time expenditure in 1985, when most of the outstanding debt incurred since 1974 for construction and modernization was paid off (see Figure 4). Without that bulge in expenditures, average outlays per unit in 1985 would have been about $2,800 in 1987 dollars.

require larger subsidies compared with the older units that were built some time ago under the mortgage-interest subsidy programs and the public housing program. Second, the share of households receiving less costly homeownership assistance has decreased. Third, housing aid is being targeted toward a poorer segment of the population, requiring larger subsidies per assisted household. Fourth, rents in assisted housing have probably risen faster than the income of

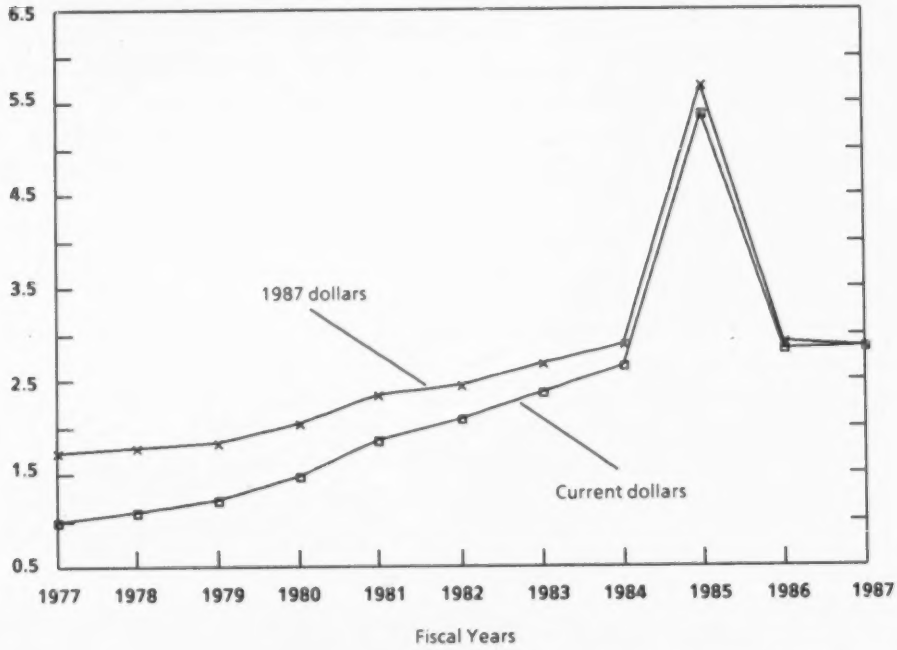
Figure 4.
Outlays for Housing Aid, 1977-1987
(In billions of current and 1987 dollars)



SOURCE: Congressional Budget Office based on data provided by the Department of Housing and Urban Development and the Farmers Home Administration.

NOTE: The bulge in outlays in 1985 is caused by a change in the method of financing public housing, which generated close to $14 billion in one-time expenditures. This amount paid off--all at once--the capital cost of public housing construction and modernization activities undertaken since 1974, which otherwise would have been paid off over periods of up to 40 years. Because of this one-time expenditure, however, future outlays for public housing will be lower than they would have been otherwise.

Figure 5.
Per Unit Outlays for Housing Aid, 1977-1987
(In thousands of current and 1987 dollars)



SOURCE: Congressional Budget Office based on data provided by the Department of Housing and Urban Development and the Farmers Home Administration.

NOTE: The peak in outlays per unit in 1985 of $5,700 is attributable to the bulge in 1985 expenditures associated with the change in the method for financing public housing. Without this change, outlays per unit would have amounted to around $2,800 in 1987 dollars.

assisted households, causing subsidies to rise faster than the inflation index used here--the gross national product (GNP) implicit price deflator.[9]

9. For example, between 1980 and 1986, the GNP implicit price deflator increased 33 percent. Over the same period, median family income of renters and the Consumer Price Index for residential rents increased by 36 percent and 46 percent, respectively, but the maximum rents allowed for Section 8 existing-housing certificates--the so-called Fair Market Rents--rose around 57 percent.

CURRENT VARIATIONS IN COMMITMENTS AND COSTS ACROSS PROGRAMS

The total number of households that can be served by the various programs from funds appropriated to date exceeds the number of households currently being served, because some commitments are still being processed. Programs vary greatly in their scope as well as their costs per unit.

Current Pool of Housing Assistance

At the end of 1987, 5.4 million households were receiving assistance, and around 250,000 commitments were still being processed. Another 69,000 commitments--net of expected deobligations and dropouts--were funded in 1988. Thus, a total of almost 5.7 million households can eventually be served from funds already appropriated (see first two columns of Table 8).[10]

Rental programs can assist more than 4.6 million households, once the processing of roughly 357,000 commitments has been completed. Commitments tied to projects specifically constructed or substantially rehabilitated for assisted households will account for about 3 million of them, with the public housing program alone aiding more than 1.4 million households. The Section 8 existing-housing and moderate rehabilitation programs will aid the remaining 1.6 million households. Around 1 million of these Section 8 commitments will be tied to individual households through certificates and vouchers, while the remaining commitments will be tied to units in selected existing rental projects. For homeownership programs, the number of commitments (26,600) now being processed is less than the number of households expected to leave the programs in 1988, resulting in a net decline in the number of homeowners served.

10. This figure accounts for the expected loss of about 72,000 commitments in 1988, primarily because of assisted homeowners' dropping out of the programs.

Per Household Cost of Various Types of Housing Assistance

Expenditures per household vary substantially among programs. In 1987, average outlays for all rental programs amounted to almost

TABLE 8. COMMITMENTS AND OUTLAYS BY MAJOR FEDERAL HOUSING ASSISTANCE PROGRAMS, 1987

Program	Households Assisted End of Fiscal Year 1987 (Thousands)	Commitments Outstanding Through Fiscal Year 1988 (Thousands)[a]	Total Outlays During Fiscal Year 1987 (Millions of dollars)	Outlays Per Household in Fiscal Year 1987 (Dollars)[b]
Rental Assistance Programs				
Section 8				
Existing-Housing				
Vouchers	82	184	81	n.a.
Certificates	874	895	c	c
Loan management, property disposition, and conversions	414	438	3,819[c]	3,013[c]
Moderate rehabilitation	76	126	244	3,381
Subtotal, Existing-Housing	1,446	1,643	4,144	3,033
New Construction and Substantial Rehabilitation	794	868	3,981	5,067
Public Housing	1,390	1,433	3,517[d]	2,539[d]
Other HUD Programs[e]	552	551	686	1,229
Section 515 Rural Rental Assistance	349	394	853[f]	2,525[f]
Total[g]	4,296	4,653	13,180	3,092

SOURCE: Congressional Budget Office based on data provided by the Department of Housing and Urban Development and the Farmers Home Administration.

NOTE: n.a. = not available.

a. Includes commitments being processed, as well as commitments that will be funded from the 1988 appropriation. Excludes commitments expected to be lost because funds are deobligated or because landlords or homeowners drop out of the programs in 1988.

b. Estimated by dividing total outlays by the simple average of the number of households receiving assistance at the end of fiscal year 1986 and the end of fiscal year 1987. This procedure could not be

(Continued)

$3,100 per household, compared with around $1,900 per household assisted through homeownership programs (see Table 8). Among rental programs, the expenditures for the Section 8 new construction and substantial rehabilitation program were highest--more than

TABLE 8. Continued

Program	Households Assisted End of Fiscal Year 1987 (Thousands)	Commitments Outstanding Through Fiscal Year 1988 (Thousands)[a]	Total Outlays During Fiscal Year 1987 (Millions of dollars)	Outlays Per Household in Fiscal Year 1987 (Dollars)[b]
Homeownership Assistance Programs				
Section 235 Mortgage-Interest Subsidies	159	144	182	1,066
Section 502 Rural Housing Loans[h]	899	876	1,900	2,062
Total[i]	1,059	1,020	2,082	1,906

b. Continued

used for vouchers because, between 1986 and 1987, HUD changed its methodology for counting the number of voucher recipients. Thus, vouchers are excluded from the calculations of subtotal and total outlays per household.

c. Section 8 certificates are included in loan management, property disposition, and conversions.

d. Includes outlays for operating subsidies, for the up-front capital costs of new construction and modernization activities undertaken during 1987, and for debt service of construction and modernization activities undertaken before 1974.

e. Includes currently inactive Section 236 and rent supplement programs.

f. Total outlays include household subsidies provided under the FmHA's rental assistance payments program and mortgage-interest subsidies provided to the developers.

g. The total does not equal the sum of the number of households assisted under the various programs; rather, it has been adjusted to avoid double-counting households receiving more than one subsidy. These households include 189,000 households assisted through Section 236 as well as either rent supplement or Section 8, and about 46,000 households assisted through both Section 515 and Section 8.

h. Includes 141,000 assisted households whose loans were sold to private investors in 1987. Total outlays do not include the loss of $1 billion associated with these asset sales, however.

i. Although at the end of 1987 over 26,000 commitments for new homebuyers were still being processed, an estimated 66,000 households are expected to leave the programs in 1988. Thus, the total number of outstanding commitments is declining.

$5,000 per assisted household compared with around $3,000 per household assisted through the various components of the Section 8 existing-housing program. Estimated expenditures for Section 8 certificates and vouchers amounted to $4,200, including fees paid to administering agencies.

Outlays per household in a given year, however, represent quite different concepts among programs. For Section 8 certificates and vouchers, they reflect essentially the full cost of aiding the average household. Not all costs are included for other programs, however--particularly for many production-type programs, where some federal costs occur when the project is first built. For example, outlays for public housing reflect operating subsidies for all units, but expenditures covering the cost of construction and modernization of projects are included for only a portion of all units, primarily those constructed before 1974, for which debts are still being paid off, and those being built or modernized in the year in question. Many projects assisted under various programs also continue to benefit from favorable mortgage financing whose federal cost may have been incurred when the mortgage was closed and would thus not be reflected in current outlays. Moreover, significant indirect subsidies are received through tax benefits--federal as well as state and local--by many newly constructed or rehabilitated projects, but these tax expenditures are not included in outlays. Finally, some households receive subsidies under more than one program--for example, under both the Section 236 and the Section 8 conversion or loan management programs--which reduces the apparent average cost of subsidizing individual households.

Differences in per household outlays among programs also reflect variations in the quality of units and in the types of households served. For example, the high cost of the Section 8 new construction program is partly explained by the relatively high quality and recent construction of these units compared with, say, public housing units that were built some time ago and now need substantial rehabilitation. Average subsidy costs would also be higher, other things being equal, in programs that serve households that need large, expensive units or households that are relatively poor and so make only small contributions toward their units' rents.

Thus, current per household outlays can be a misleading indicator of the comparative costs of assisting an additional household through the various programs, and deriving cost comparisons is a complex task. Some major studies, employing different methodologies, have shown the Section 8 new construction and substantial rehabilitation program to be from 60 percent to 100 percent more expensive than the Section 8 existing-housing program.[11] Disagreement exists among these and other studies, however, regarding the relative costs of public housing. One study found that, regardless of what assumptions were used concerning future increases in housing expenses and tenants' incomes, public housing was from 30 percent to 50 percent more expensive than the Section 8 existing-housing program but always cheaper than Section 8 new construction.[12] On the other hand, another study, which employed extensive data on project characteristics as well as more comprehensive estimates of indirect subsidies, found that the cost of subsidizing the same unit occupied by the same household through public housing was generally more expensive than through the Section 8 new construction program.[13] The cost of public housing exceeded that of Section 8 new construction, ranging from a negligible amount to 44 percent, depending on the particular variant of the Section 8 program. (This study did not include cost comparisons with the Section 8 existing-housing program.)

Although updating these studies is beyond the scope of this paper, illustrative estimates of the long-term direct expenditures for subsidizing an elderly household under the three currently active major programs are presented in Table 9. Under some simplifying assumptions regarding future inflation rates and the length of time a unit will be in the assisted housing stock, expenditures for an elderly household

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11. See, for example, Congressional Budget Office, *The Long-Term Costs of Lower-Income Housing Assistance Programs* (March 1979). For a comparison of the costs of Section 8 existing-housing certificates and Section 8 new construction, see Abt Associates, Inc., *Participation and Benefits in the Urban Section 8 Program*, prepared for the Department of Housing and Urban Development (January 1981). For a detailed comparison of the costs of the various HUD production programs, see Urban Systems Research and Engineering, Inc., *The Costs of HUD Multifamily Housing Programs*, prepared for the Department of Housing and Urban Development (May 1982).

12. See Congressional Budget Office, *The Long-Term Costs of Lower-Income Housing Assistance Programs.*

13. See Urban Systems Research and Engineering, Inc., *The Costs of HUD Multifamily Housing Programs.*

TABLE 9. ILLUSTRATIVE ESTIMATES OF THE 20-YEAR COSTS OF SUBSIDIZING AN ELDERLY HOUSEHOLD THROUGH VARIOUS HOUSING PROGRAMS, 1988-2008

Program	20-Year Costs		Present Discounted Value Using Various Real Discount Rates[a]		
	Current Dollars	1988 Dollars	0.5 Percent	2 Percent	4 Percent
Section 8 Existing-Housing	112,300	68,900	65,400	56,400	47,000
Section 202/8 New Construction	80,700	71,300	70,400	67,700	64,600
Public Housing	89,700	76,800	75,800	73,200	70,400

SOURCE: Congressional Budget Office estimates.

NOTE: These estimates are based on simplifying assumptions and are meant to illustrate inherent cost differences rather than represent definitive projections of program costs. The following assumptions and data were used:

- The Section 202/8 unit and the public housing unit are constructed in 1988 and become occupied in 1989. The Section 8 existing-housing unit also becomes occupied in 1989.
- A 20-year holding period is assumed for the two new construction programs, thereby eliminating the need to consider the cost of major rehabilitation in public housing after 15 to 20 years, which is not covered by operating expenditures. Thus, it is assumed that the 40-year Section 202 loan is paid off in full in the twentieth year. To the extent that units have a useful life after 20 years, even without rehabilitation expenditures, this simplified assumption makes public housing appear more expensive.
- Only direct expenditures are included. Expenditures for both components of the Section 8 program consist of the differential between the unit's rent and 30 percent of the tenant's adjusted income; for public housing, they consist of the up-front grant for the construction costs and an annual operating subsidy thereafter. This approach underestimates the federal costs of Section 202/8 because of favorable financing received by developers, and excludes the costs borne by state and local governments under both production programs because of forgone local property taxes.
- Over the 20-year period, tenants' income is assumed to rise at the same rate as rents in the Section 8 program and as operating costs in public housing. An average inflation rate of 4.5 percent is assumed for the current dollar estimates.
- Based on HUD estimates, the average construction cost in 1988 for a unit developed under Section 202/8 for an elderly household is assumed to be $45,741. Under public housing a unit with similar characteristics is estimated to be 24 percent more expensive--based on findings of Urban Systems Research and Engineering, Inc., *The Costs of HUD Multifamily Housing Programs*, prepared for HUD (May 1982). In 1988, the estimated first-year rent subsidy for an elderly tenant with an average adjusted income of $5,643 is $3,765 under Section 8 existing-housing (including the administrative fee), and $4,913 under Section 202/8. Similarly, the average operating subsidy under public housing is estimated at $1,052.

a. The real (inflation-adjusted) long-term discount rate depends on the differential between long-term federal borrowing costs and the rate of inflation. In the long run, this rate is estimated to be around 2 percent, but it could vary at least between near 0 and 4 percent. Present discounted values reflect conceptually the amount of money one would have to put in the bank today if interest were earned at the nominal--not inflation-adjusted--discount rate in order to cover the future stream of subsidies.

with a given income over a 20-year period--when measured in current dollars--appear lowest in the Section 202/8 program and highest in Section 8 existing-housing. When measured in constant 1988 dollars, however, Section 8 existing-housing is 10 percent cheaper than public housing and 3 percent cheaper than Section 202/8. When also controlling for the time value of money by considering the present discounted value of the stream of subsidy payments, the Section 8 existing-housing program becomes substantially cheaper than Section 202/8 and public housing, particularly as the real discount rate is raised.[14] These results occur because both the public housing and Section 202/8 programs require large up-front federal expenditures for construction, with relatively low net annual outlays for household subsidies thereafter. By contrast, under the Section 8 existing-housing program, annual payments are more consistent over time, with larger amounts therefore occurring far into the future where higher discount rates reduce the present value of those payments.

THE DISTRIBUTION OF FEDERAL HOUSING AID

Only a relatively small proportion of the population targeted by federal housing programs is currently served. The pool of assistance is unevenly distributed among different types of households and locations, reflecting both the varying rates at which different housing programs serve different types of households and the mix of outstanding commitments.

Rental Assistance Programs

Although the largest share of all rental subsidies is received by the primary target population--that is, renters with income at 50 percent or less of the area's median income adjusted for family size--a lack of reliable data on the current distribution of aid across income groups makes it difficult to estimate the proportion of very-low- and

14. The real (inflation-adjusted) long-term discount rate depends on the differential between long-term federal borrowing costs and the rate of inflation. Present discounted values reflect conceptually the amount of money one would have to put in the bank today if interest were earned at the nominal (not inflation-adjusted) discount rate in order to cover the future stream of subsidies.

low-income households that can be served with commitments for which funds have already been appropriated. In 1981, less than 15 percent of all rental assistance administered by HUD went to households with income above 50 percent of the area's median, ranging from about 7 percent for the Section 8 existing-housing program to over 30 percent for the Section 236 program.[15] Since that time, almost all new housing assistance has gone to very-low-income households, but data are not yet available to determine the effects of this legislation on the overall distribution of housing aid.[16]

Estimates of the proportion of eligible households served also vary depending on how the eligible population is defined. For example, under current law, households consisting of single persons or groups of unrelated individuals can receive assistance only under special conditions (see Box 2 in Chapter II). Thus, one might argue that such households should be excluded when determining the size of the eligible population. On the other hand, excluding all of them would understate the number who are eligible, since no one is excluded a priori from program participation and an unknown number of such households meet the special conditions.

Another issue concerns whether or not to include homeowners in the eligible population. Homeowners who sold their homes would be eligible for rental assistance if they met the income-eligibility criteria, but some who are currently classified as very-low- or low-income would not be income-eligible, because returns on the liquidated equity from their homes would be imputed and added to their annual income. Available data on the amount of equity now held in the form of owner-occupied housing, however, are not reliable enough to estimate the number of households that would no longer meet the income-eligibility criteria.

In view of these concerns, this study produced alternative estimates of the proportion of eligible households that could be served,

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15. See Paul Burke, "Trends in Subsidized Housing, 1974-1981" (unpublished paper, Department of Housing and Urban Development, March 1984).

16. Under current law, households classified as low-income may generally occupy, in the aggregate, no more than 25 percent of all units that were available for occupancy before 1981 and no more than 5 percent of units made available since that time. These limitations do not have to be achieved, however, in the individual assistance programs.

ranging from 12 percent to 49 percent (see Table 10). In particular, if all of the 4.65 million rental assistance commitments available from past appropriations were received exclusively by very-low-income

TABLE 10. ALTERNATIVE ESTIMATES OF THE PROPORTION OF THE ELIGIBLE POPULATION THAT COULD BE SERVED BY RENTAL ASSISTANCE PROGRAMS, 1988

Definition of Eligible Population	Estimated Number of Eligible Households (Thousands)	Percentage Served By: 100 Percent of 4.65 Million Commitments	Percentage Served By: 90 Percent of 4.65 Million Commitments[a]
Very-Low-Income Households			
Renters			
Including single persons	12,200	38	34
Excluding single persons	9,500	49	44
Renters and Homeowners[b]			
Including single persons	22,600	21	19
Excluding single persons	19,100	24	22
Very-Low- and Low-Income Households			
Renters			
Including single persons	18,600	25	n.a.
Excluding single persons	14,000	33	n.a.
Renters and Homeowners[b]			
Including single persons	37,700	12	n.a.
Excluding single persons	31,600	15	n.a.

SOURCE: Congressional Budget Office estimates.

NOTE: Estimates of the number of eligible households are based on 1985 American Housing Survey, adjusted for growth in the number of households between 1985 and 1988, assuming the number of very-low- and low-income renters grew at the same rate as the number of households in general. Income categories are defined in Box 2 in Chapter II. Excludes renters that pay no cash rent.

Single persons are defined here as including households of one person or groups of unrelated individuals.

n.a. = not applicable.

a. Since 1981, housing assistance has been targeted almost exclusively toward very-low-income households. A small but unknown proportion of assisted units, however, are still occupied by low-income renters. These figures assume that 90 percent of commitments are received by very-low-income renters, with 10 percent going to low-income renters.

b. Some of the homeowners classified here as very-low- or low-income would not be eligible for rental assistance if they sold their homes. Under current law, returns on any liquidated equity in their homes would be imputed and added to their annual income to determine whether the households met the income-eligibility requirements. Available data on the amount of equity now held in the form of owner-occupied housing, however, are not reliable enough to estimate the number of homeowners who would be ineligible for assistance. Thus, the number of potentially eligible homeowners is somewhat overstated here.

renters, up to 38 percent of the 12.2 million renters estimated to have very low incomes in 1988 could eventually be served. Assuming that about 10 percent of all assisted units will still be occupied by low-income families, however, about one-third of all very-low-income renters would actually receive assistance. Including renters classified as low-income in the eligible population reduces the proportion that could be served with available aid to one-fourth. Excluding single persons and groups of unrelated individuals would increase all these estimates by roughly a third, while including homeowners currently classified as very-low- or low-income would reduce them by about half.

Aid is unevenly distributed among various household groups in the target population (see Table 11). The roughly 2 million outstanding commitments available to the elderly can serve an estimated 51 percent to 57 percent of all very-low-income elderly renters, depending on how many of these commitments currently go to low-income elderly households. By contrast, commitments available to both large and small families with children can serve at most roughly 38 percent of those with very low incomes. Only 19 percent of all very-low-income nonelderly households with no children present can be served with the commitments available to them, although the proportion of this group eligible for aid is not known. Finally, the proportion of very-low-income renters in metropolitan areas that can be served appears substantially lower than that in nonmetropolitan areas. Reliable figures for these proportions are difficult to estimate, however, because the definition of metropolitan areas used in estimating assisted units differs from that used in estimating eligible households.

This uneven distribution is mainly the result of inherent differences in the rates at which programs serve various types of households, as well as the changing mix among programs over the past 12 years. New construction programs traditionally have helped elderly renters at rates exceeding their share of the very-low-income renter population, which is estimated to be about 29 percent in 1988 (see Table 12). This tendency is particularly strong in the Section 8 new construction program, under which more than two-thirds of all subsidies are received by the elderly, but is less pronounced in the older production programs such as public housing and Section 236. Moreover, while programs that assist renters living in existing dwellings are more likely than the production programs to serve families with children, they too aid the elderly disproportionately. Thus, from 1977

to 1980, when the Section 8 new construction program was very active, around half of all new commitments were for the elderly (see Figure 6). Since then, the emphasis has shifted toward existing-

TABLE 11. ESTIMATED DISTRIBUTION OF THE ELIGIBLE POPULATION AND THE RENTAL ASSISTANCE AVAILABLE FOR VARIOUS GROUPS OF HOUSEHOLDS, 1988

Type of Household	Very-Low-Income Renters (Thousands)[a]	Assisted Units Available to Group (Thousands)[b]	Percentage Served By: All Commitments Available to Group	Percentage Served By: 90 Percent of Commitments Available to Group[c]
Elderly, No Children	3,500	1,990	57	51
Nonelderly, No Children	3,500	660	19	17
Households with 1 or 2 Children	3,600	1,380	38	35
Households with 3 or More Children	1,600	620	38	34
In Metropolitan Areas	10,000	3,110[d]	d	d
In Nonmetropolitan Areas	2,200	1,540[d]	d	d
Total	12,200	4,650	38	34

SOURCE: Congressional Budget Office estimates based on information provided by the Department of Housing and Urban Development and the Farmers Home Administration.

NOTE: Income category and household types are defined in Box 2 in Chapter II.

a. Estimates of the total number of very-low-income renters are based on the 1985 American Housing Survey, adjusted for growth in the number of households between 1985 and 1988, assuming the number of very-low- and low-income renters grew at the same rate as the number of households in general. Excludes renters that pay no cash rent.

b. Includes units still being processed at the end of fiscal year 1988.

c. Since 1981, housing assistance has been targeted almost exclusively toward very-low-income households. A small but unknown proportion of assisted units, however, are still occupied by low-income renters. These figures assume that 90 percent of commitments are received by very-low-income renters, with 10 percent going to low-income renters.

d. Based on HUD's 1981 estimate that 28.5 percent of its aid goes to nonmetropolitan areas and the General Accounting Office's 1980 estimate that 83.4 percent of FmHA rental assistance goes to nonmetropolitan areas. The definition of metropolitan areas has changed since these estimates were made, however, with many nonmetropolitan areas being reclassified as metropolitan areas. Thus, the number of assisted units is likely understated for metropolitan areas as defined by the 1985 American Housing Survey and overstated for nonmetropolitan areas. Therefore, the percentage of eligible households served cannot be calculated.

TABLE 12. DISTRIBUTION OF THE ELIGIBLE POPULATION AND OF RENTAL AID UNDER VARIOUS PROGRAMS, 1988 (In percents)

	Type of Household				
	Elderly, No Children	Nonelderly, No Children	With 1 or 2 Children	With 3 or More Children	All
	As a Percentage of Very-Low-Income Renters				
Eligible Population in 1988	29	29	29	13	100
	Percentage of Total Aid Received by Type of Household				
Section 8 Existing-Housing/Vouchers[a]	32	15	38	15	100
Section 8 New Construction and Substantial Rehabilitation	68	10	17	5	100
Public Housing	38	15	29	19	100
Other HUD Programs[b]	41	19	30	10	100
Section 515 Rural Rental Assistance	51	16	25	9	100
Total	43	14	30	13	100

SOURCE: Congressional Budget Office estimates based on data provided by the Department of Housing and Urban Development and the Farmers Home Administration.

NOTE: Income category and household types are defined in Box 2 in Chapter II.

Federal statistics on housing aid to the elderly commonly include commitments to households headed by handicapped individuals. In this table, however, figures for the elderly include the share of aid that goes to the handicapped elderly, while aid to other handicapped households is reflected primarily in the category of nonelderly households without children present. Overall, the handicapped occupy an estimated 8 percent of public housing units and 12 percent of Section 8 new construction units.

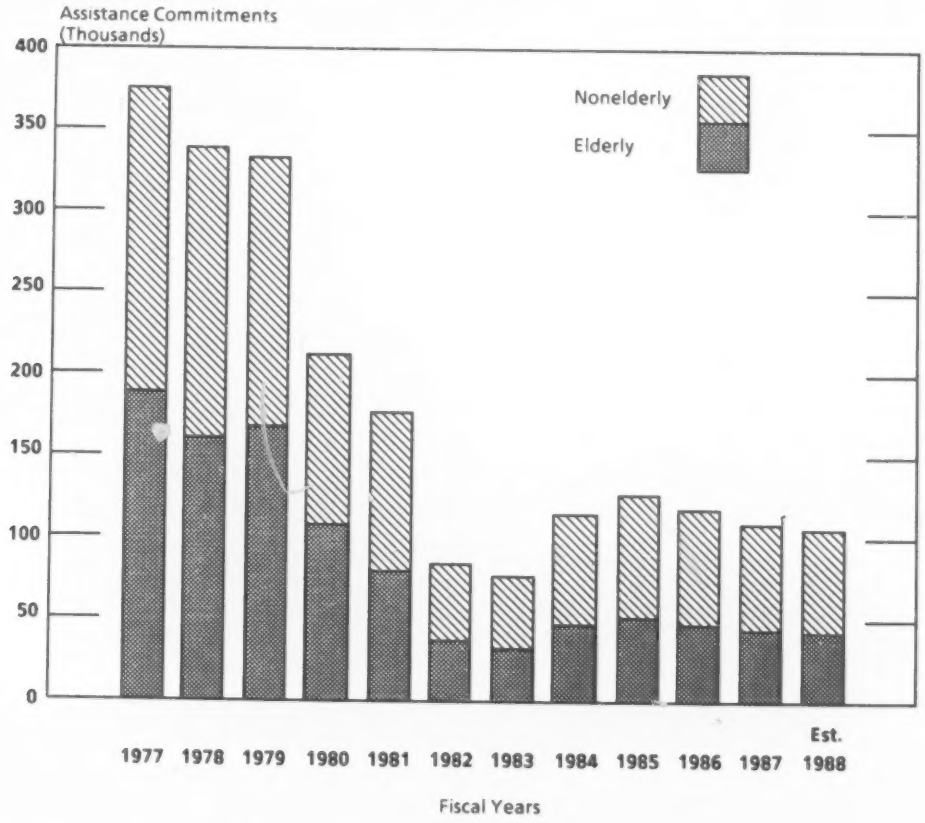
a. Includes Section 8 moderate rehabilitation, loan management, property disposition, and conversion assistance.

b. Includes Section 236 and rent supplement programs.

housing programs, and the share of annual commitments going to the elderly has declined to around 40 percent, but the elderly are still receiving an estimated 43 percent of all rental aid.

The uneven locational distribution of aid is explained mostly by the rates at which the administering agencies allocate assistance. According to 1981 data, an estimated 71 percent of all aid provided

Figure 6.
Net New Rental Commitments for Elderly and Nonelderly Households, 1977-1988



SOURCE: Congressional Budget Office based on data provided by the Department of Housing and Urban Development and the Farmers Home Administration.

through HUD programs goes to metropolitan areas.[17] All aid provided through FmHA must go to rural areas, but available data from a 1980 study suggest that around 17 percent of its rental assistance goes to rural portions of metropolitan areas.[18] On the whole, metropolitan areas as defined in these studies would receive around two-thirds of all aid, but using a more current definition would likely show a somewhat larger share. Metropolitan areas as defined by the 1985 American Housing Survey, however, contain more than four-fifths of the target population.

Homeownership Programs

Homeownership programs probably serve groups with higher incomes than do rental assistance programs, because the size of the subsidy may not reduce out-of-pocket expenditures sufficiently to make homeownership affordable for very poor households.[19] Furthermore, compared with rental assistance programs, the requirements for targeting the very-low-income population are much less stringent under Section 502 and are nonexistent under Section 235. Reliable data are not available, however, on the distribution of homeownership assistance among various income categories of the eligible population.

Over the past decade, homeownership assistance has been provided each year to a small proportion of homebuyers whose income is up to 95 percent of the area's median. On average, federally subsidized mortgages have aided about one in ten of these lower- and moderate-income homebuyers in any year, with the proportion probably declining recently because of cutbacks in the number of annual commitments provided. Although little information exists on the distribution of aid among demographic groups, elderly homebuyers typically have received an estimated 3 percent of FmHA's Section 502

17. Burke, "Trends in Subsidized Housing."

18. General Accounting Office, *Ways of Providing a Fairer Share of Federal Housing Support to Rural Areas* (March 28, 1980).

19. Both the Section 502 and the Section 235 programs put floors on household expenditures by specifying a minimum interest rate that the owner must pay, currently as low as 1 percent for the Section 502 program. Legislative requirements to target FmHA funds toward the poorest households have, for example, resulted in portions of funds earmarked for very-low-income households not being spent in a timely fashion because few such households that applied qualified for a mortgage. See General Accounting Office, *Rural Housing: Opportunities to Reduce Costs and Better Target Assistance* (February 1986).

mortgages and an estimated 16 percent of the Section 235 commitments. By comparison, in 1985, around 19 percent of all homeowners with income below 80 percent of the area's median who had purchased their homes during the previous year were elderly.

CHAPTER IV

OPTIONS FOR DETERMINING THE TYPES OF AID TO PROVIDE

Because housing assistance is not an entitlement program and because it can be provided through many different approaches, a number of recurring questions must be resolved each year concerning the funding of housing aid. These questions include:

- What types of assistance should be provided and how should they be financed?
- Which types of households should have priority for receiving assistance?
- How large a subsidy should households receive?
- How many households should receive housing assistance?

Resolving these four issues involves a trade-off among annual program costs, the number of eligible households served, and the average subsidy provided per assisted household. Total program costs are affected both by the number of households served and by the average subsidy per household, which in turn depends on decisions regarding the program mix, the types of households served, and the out-of-pocket expenditures made by assisted households. For example, targeting more subsidies toward households that are on average more expensive to assist, such as very poor or very large families, would raise program costs. These added expenses could be offset wholly or in part by decreasing program coverage, by decreasing the size of each recipient's subsidy, by shifting the current program mix toward less expensive forms of assistance, or by a combination of these mechanisms.

Traditionally, these questions have been dealt with at the federal level, although localities have had some discretion regarding the program mix. More or all control over these decisions, however, could be transferred to state and local governments, who presumably are in a better position than the federal government to know their local

housing needs and may be better able to develop cost-effective strategies to address those needs.[1] On the other hand, potential divergences between local and national policy goals would argue in favor of retaining control at the federal level.

A related issue of growing importance will also affect decisions on how to deal with some of these questions, be it at the federal, state, or local level. This issue concerns the potential loss of housing assistance commitments resulting from the impending expirations of many multiyear subsidy contracts, and of opportunities for certain private owners of federally assisted projects to opt out of their obligations to make their units available to lower-income tenants at controlled rents. Thus, decisions must be made not only about the amount and nature of any additional assistance, but also whether and how to respond to this reduction in commitments. These choices involve many of the same trade-offs as those for providing additional assistance. In fact, although specific approaches for keeping units in the programs are not discussed in this paper, many of the policy options presented here might be considered in future deliberations on how to fund either additional or continued assistance.[2]

The remainder of this chapter deals with the first question--what types of assistance to provide. Questions concerning the targeting of assistance, the size of the subsidy, and the number of households to serve are considered in Chapter V.

BROAD CONCERNS REGARDING PROGRAM MIX

Deciding what types of assistance to provide depends largely on the particular policy goals being pursued and the groups being targeted for assistance. Traditional policy goals have included improving the

1. One way of shifting control would be to provide some or all housing assistance through block grants. See Appendix B for a brief discussion of the debates on this approach.

2. For a more detailed discussion of this issue and an overview of options for dealing with the potential loss of units from the assisted inventory as owners opt out of the programs, see Congressional Budget Office, "The Potential Loss of Assisted Housing Units as Certain Mortgage-Interest Subsidy Programs Mature" (Staff Working Paper, March 1987); and National Low-Income Housing Preservation Commission, *Preventing the Disappearance of Low-Income Housing* (Washington, D.C.: National Corporation for Housing Partnerships, 1988).

quality of housing, thereby ensuring minimum housing standards; limiting the proportion of income spent for housing, thereby freeing a household's income for consuming other goods; increasing locational opportunities for lower-income households; increasing homeownership opportunities; stimulating residential construction and rehabilitation for lower-income households; and promoting stabilization, revitalization, and the economic and racial integration of neighborhoods. Major lower-income groups being assisted include the elderly, the handicapped, and families with children.

The ultimate choice regarding the program mix for which to appropriate funds, if any, would depend on the relative priorities among these policy goals in a given year. For example, a desire to increase homeownership opportunities for lower-income households--most of whom would be families with children--could be met by shifting from the current focus on rental assistance. Alternatively, emphasis on resolving the problem of high housing costs relative to income could be achieved by increasing funding for programs such as Section 8 existing-housing and vouchers, approaches that could target any group within the eligible population. Increasing the number of affordable and physically adequate units for lower-income households could be accomplished by devoting more funds to new construction or rehabilitation programs. Depending on the types of units constructed, aid could be targeted toward the elderly, for example, or to large families. Some of these policy goals could also be addressed by providing households with unrestricted cash grants rather than with aid tied to housing.[3]

Another factor to be considered is that the program mix affects both total budget authority requirements and the pattern of annual outlays over time, because programs vary in their per unit subsidy costs and their financing mechanisms. For example, as previously noted, new construction programs generally require larger amounts of budget authority than existing-housing programs, both because rents of newly constructed units are typically higher and because commit-

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3. In this study, providing cash grants is regarded as an alternative to housing assistance rather than as a type of assistance. It is therefore not further discussed in this chapter but appears in Chapter V as an option for aiding poor households if housing assistance were phased out. For a detailed analysis comparing the effectiveness of cash grants and housing vouchers in meeting various policy goals, see Ira S. Lowry, ed., *Experimenting with Housing Allowances* (Cambridge, Mass.: Oelgeschlager, Gunn and Hain, 1983).

ments for them are usually for a longer period of time than are those for units in the existing-housing stock.[4] In addition, new construction programs often require large up-front outlays, if--as is the case for all currently active new construction programs--the government provides all or part of the construction financing through grants or direct loans.

The remainder of this chapter considers the mix between assistance to homeowners and renters, and, within each type of aid, the particular programs that might be funded.

THE MIX OF RENTAL ASSISTANCE VERSUS HOMEOWNERSHIP ASSISTANCE

Over the past 12 years, the number of new commitments made available each year to assist lower- and moderate-income homebuyers has been small relative to that provided to aid renters, and it has been decreasing during the 1980s. For 1989, funds were appropriated to provide direct loans to an estimated 27,000 homebuyers through the FmHA Section 502 program. The Congress could increase, leave unchanged, or decrease the emphasis on aid to homebuyers; or it could terminate this form of assistance, as proposed by the Administration in recent budget submissions.

Assistance to homebuyers provides lower-income households with opportunities to gain financial equity in an asset and thus to accumulate some wealth. In the absence of changes in the current tax code--which encourages homeownership for middle- and upper-income households, many of whom would likely choose to own rather than rent even without added incentives--supporters of homeownership assistance argue that it should be available to households whose incomes are too low to benefit in any substantial way from tax expenditures. Furthermore, homeownership is thought to confer social benefits in the form of better maintenance of lower-income properties, promotion of family and neighborhood stability, and greater participation in community affairs. In addition, if aid were targeted

4. The first fact is real--it does increase the cost to the federal government--but the second is an accounting artifact in that existing-housing commitments are commonly expected to be renewed when their terms expire.

toward better-off households currently living in assisted rental projects, their units would be available to help poorer households that are on waiting lists for subsidized housing.

Homeownership aid might be more effective than rental aid for certain types of households. For example, families that need large units (those with three or more bedrooms) may be more likely to find them in the owner-occupied stock, which contains 84 percent of all such units and 70 percent of all large units occupied by lower-income households. Furthermore, single-family homes may provide a more suitable living environment for families with three or more children; of the large units occupied by lower-income renters, however, only 60 percent are in single-family homes compared with well over 90 percent of large units occupied by lower-income owners. Homeownership assistance also may still be needed in those rural areas where mortgage-lending institutions are scarce and the supply of rental housing is limited, particularly in areas that lack the population density or the infrastructure to support rental developments.

By contrast, proponents of decreasing or even eliminating homeownership assistance argue that scarce federal resources should be targeted toward the poorest households. Most beneficiaries of current subsidized homeownership programs are low- and moderate-income households, since the mortgage-interest subsidies tend to be insufficient to enable the poorest segment of the population to purchase homes. Furthermore, because rental assistance is not an entitlement and only a fraction of eligible households are now served, many homeowners who receive subsidies have higher incomes and better living quarters than many families who are not assisted.

Another argument against assisting homeowners is that poor households may benefit more from rental assistance programs. Lower-income households may have difficulties managing homeownership when they encounter unexpected repair bills or when they experience loss of income--because of unemployment spells, for example. Many such households are likely to default on their mortgages and to be subjected to foreclosure--as evidenced, for example, by past high foreclosure rates in the Section 235 program. Thus, they are relatively vulnerable to losing their home and any accumulated equity.

TYPES OF ASSISTANCE TO HOMEOWNERS

Several basic approaches are available for providing direct assistance to lower-income homeowners. The traditional method has been to reduce mortgage payments for homebuyers through mortgage-interest subsidies. Another approach would be to reduce the principal amount of the mortgage--for example, by providing grants for downpayments, by extending interest-free second mortgages that become due at the time of resale, or by otherwise reducing the purchase price. A third approach would be to offer subsidies to homeowners through vouchers similar to those available to renters.[5]

Mortgage-Interest Subsidies

Opportunities for poor rural households to own a home could be expanded by continuing to provide additional commitments through the FmHA Section 502 program--the only currently active program of this sort. For 1989, the average lending authority per mortgage is estimated to be about $47,000. Because this program provides direct loans to homebuyers, it requires large up-front federal outlays, which are partially offset over time by a stream of income to the government as the household repays the mortgage over a certain period--generally up to 33 years. In addition, if the home is sold, the government recaptures all or a portion of the nominal value of the accrued subsidies, with the amount depending on the owner's equity and any capital gains. Thus, the ultimate cost to the federal government is the difference between the government's borrowing cost and the interest paid by the homebuyer, plus any costs incurred if borrowers default on their loans, minus any costs recaptured at time of sale.[6]

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5. Homeownership assistance to lower-income households could also be provided by changing the tax code to allow tax credits rather than deductions for mortgage interest and property taxes.

6. The 1986 Budget Reconciliation Act authorized the sale of FmHA mortgage instruments to the public. Such sales could offset the up-front outlays immediately, except for the discount that the government must absorb to provide private investors with a market return and to compensate them for the risks of default and prepayment. Most sales, however, would probably involve older mortgages, whose default risk is relatively low. For new mortgages, the federal government would probably have to wait a few years before outlays could be offset by revenues from sales. A total of 141,000 Section 502 loans were sold during fiscal year 1987, with the government absorbing a $1 billion loss.

Reviving the HUD Section 235 program, for which funds were last authorized in fiscal year 1984 and whose authorization is scheduled to be terminated at the end of fisal year 1989, would help lower-income urban households own a home. As authorized by the Housing and Urban-Rural Recovery Act (HURRA) of 1983, this program helps households obtain mortgages from private lenders that are insured and subsidized by HUD, generally for up to 10 years. Households are required to pay at least 28 percent of their adjusted income for mortgage payments and are subject to provisions similar to those required under the Section 502 program to recapture past subsidies. The amount of the subsidy is based on the difference between the FHA interest rate in force at the time of endorsement and a subsidy floor of 4 percent. Additional federal outlays are incurred if homebuyers default, and if insurance claims paid to mortgage-lending institutions exceed net proceeds received from the sale of foreclosed properties.

One advantage of this approach is that the impact on federal outlays can be spread over many years, as in the Section 235 program. While this is not strictly the case for the Section 502 program--because of the direct loan aspect--the cost of the subsidy is also spread over time in the sense that the household's annual interest payments fall short of the government's cost of borrowing for the direct loan. In addition, without the FmHA fulfilling the role of banker in a location that has a shortage of lenders, some households may not be able to obtain loans in the first place. On the other hand, under both programs, the government assumes the risk of default and continues to be involved over the life of the mortgage, thus incurring administrative costs.

Reduced Mortgages

Several strategies that can reduce the principal amount of the mortgage were authorized by the Housing and Community Development Act of 1987. Under the Nehemiah housing opportunities grants program, nonprofit sponsors will build or substantially rehabilitate a predetermined number of housing units concentrated in certain distressed neighborhoods, and will receive grants from HUD to provide interest-free second mortgages of up to $15,000 to lower- and moderate-income buyers of these homes. These mortgages do not have to be repaid to HUD until the houses are sold. Monthly housing costs

will be lower because the second mortgages will reduce the amount of the first mortgage. The ultimate costs to the federal government will consist of the forgone interest on the amount of the loan; costs payable to nonprofit organizations for administering the program; and, presumably, any part of the second mortgage not recouped when the home is sold. No funds were appropriated for 1988, and only $20 million for 1989, however, and the authorization for the program is scheduled to terminate at the end of fiscal year 1989.

Because of its up-front grant nature, this type of strategy limits government involvement, thus keeping administrative costs to a minimum. In addition, concentrating funds in selected lower-income neighborhoods might help revive decaying areas and add permanently to the housing supply available to lower- and moderate-income households. On the other hand, by providing the subsidy up front, outlays are not spread over time. Moreover, in contrast to the interest-subsidy approach, the government cannot adjust the size of the subsidy in response to changes in household income. Finally, the grant approach may not work in jurisdictions that do not have the potential to concentrate the required number of units in a single neighborhood because they lack either the necessary number of households or suitable parcels of land.

Another approach is to allow lower-income households to purchase public housing units at below-market cost from public housing agencies (PHAs)--state or local government agencies that develop or operate lower-income housing. Such a program would represent a transfer of assets to the public from the PHAs, which own the units even though their initial costs were fully paid by the federal government. The impact on the federal budget would depend on the program's design. Under the approach authorized by the 1987 Housing and Community Development Act, for example, the rental units thus lost from the assisted inventory must be replaced on a one-for-one basis with other forms of rental assistance.[7] Thus, the cost to the federal government will be the difference between the average operating subsidy for public housing and the cost of the replacement assistance. Alternatively, as suggested in previous legislative proposals, the program could continue operating subsidies to the new homeowner

7. This provision, as well as many other aspects of the type of program authorized by the legislation, expires at the end of fiscal year 1990.

for a limited number of years rather than replace the lost units with other rental subsidies. Such an approach would have no immediate budgetary effects, and federal outlays would fall as soon as operating subsidies ceased.[8]

Selling public housing units to lower-income households may ease their transition from renter to homeowner. Many of the households that purchased their units might have lived there for a number of years and would thus avoid the psychological costs associated with moving to a new environment. In addition, if resident management organizations were formed, as stipulated in the 1987 act, technical assistance for home maintenance and repairs and perhaps household budgeting could be provided readily to the new homeowners. Furthermore, supporters of privatization argue that this approach would help reduce the federal role in subsidizing lower-income housing.

On the other hand, a program designed to sell public housing units to lower-income households may result in the loss of the best-maintained units in that inventory. Households that are among the most well-off of the eligible population would receive a valuable asset that, instead, could have provided housing services to much poorer families for many years at substantially lower annual costs to the federal government than many other possible types of rental assistance. Furthermore, unless such a program strictly limited the amount of capital gains that could accrue to the owner upon selling the unit, and unless it required the units to be resold to other lower-income households (as mandated by the current provisions in the 1987 act), it would contribute further to uneven treatment of households with similar incomes. In other words, the opportunity for one-time capital gains would be provided to only a few fortunate households.

Vouchers for Homeowners

Another approach for assisting lower-income homeowners would be to expand eligibility for Section 8 existing-housing certificates and

8. The question of private ownership of public housing raises a host of issues and needs a more extensive analysis than this brief overview to evaluate the relative merits of options for implementing such a program. HUD is now conducting a demonstration of public housing homeownership to examine the feasibility of a wide variety of approaches designed by local PHAs.

vouchers to include them. Unlike the options discussed above, this approach would address housing-related problems among lower-income households that already own their homes. As shown in Chapter II, in 1985 over 5 million very-low-income homeowners--half of them elderly--spent more than 30 percent of their income for housing.

Such a program, if designed properly, might also encourage homeownership among very-low-income households. The Experimental Housing Allowance Program (EHAP) found that only between 2 percent and 3 percent of renters purchased homes after receiving vouchers. Thus, to stimulate homeownership among the poor through this approach, the federal government might need to provide additional encouragement--perhaps in the form of higher subsidies than provided under EHAP, help with downpayments, or technical assistance--all of which would increase costs. To help pay for such a program, the government could recapture part or all of the subsidies from any capital gains realized upon sale of the home, as in the Section 502 and 235 programs.

Such aid would reduce the likelihood of lower-income homeowners falling behind in their mortgage payments or property taxes, thus helping prevent foreclosure. It might be particularly effective for very-low-income elderly households, who are much more likely to be homeowners than renters and who face relatively high ratios of housing costs to income, often as a result of their incomes falling when they retire. Expanding eligibility for assistance to homeowners would give these elderly households the option of continuing their independent living arrangements rather than giving up their homes and moving into rental units where they might also need federal subsidies. Such aid might also generate better living environments, as evidenced by EHAP's finding that, in addition to making required repairs to meet housing standards, three-quarters of all homeowners receiving vouchers voluntarily undertook home improvements.

On the other hand, while making very-low-income homeowners eligible for this form of aid would smooth out differential treatment of renters and homeowners with the same annual incomes, many of these homeowners have substantial assets in the form of accumulated equity in their homes and already live in better-quality homes than their counterparts who rent their dwelling units. Thus, in these

respects, homeowners are relatively better off than renters with the same annual incomes.

TYPES OF RENTAL ASSISTANCE

Debates on rental assistance typically do not involve the question of whether or not to continue supplying this form of aid. Rather, they tend to focus on what types of assistance to provide--that is, on the mix of existing-housing or household-based aid versus project-based aid and, within each of these basic approaches, on which programs to fund. Existing-housing programs include Section 8 certificates and vouchers. The current choices for project-based aid primarily include programs for new construction and rehabilitation, although the Housing and Community Development Act of 1987 now allows up to 15 percent of Section 8 existing-housing certificates to be attached to particular structures.[9]

Existing-Housing versus New Construction and Substantial Rehabilitation

The proportion of additional rental commitments provided each year through existing-housing programs has steadily increased over the past 12 years. Under current policy--that is, the program mix stipulated in the 1989 appropriations--about 65,000 new commitments would be made annually to assist households living in units of their choosing in the existing-housing stock, and 37,000 additional commitments (around 36 percent of all new rental aid) would be provided for newly constructed and rehabilitated units. This current mix could be altered by placing more emphasis on production-oriented programs, or by continuing to shift the mix of new aid away from this approach or perhaps abandon it, as proposed in recent Administration budgets.

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9. Some project-based aid, provided through the Section 8 loan management and property disposition programs, helps lower-income households who live in troubled projects that are federally insured or assisted. These programs are not considered here, because the issues involved in the decision to fund them are quite different, revolving mostly around the efficient financial management of the insured and assisted housing stock.

Emphasizing the use of existing housing and further decreasing or eliminating new construction and rehabilitation programs would probably be the fastest and simplest way to help the largest number of households at the least cost. Past research has shown new construction programs to be as much as double the cost of subsidizing families through such programs as Section 8 existing-housing and vouchers.[10] Furthermore, observers who see little need for subsidizing new construction argue that the overwhelming housing problem today is generally not a shortage of rental units per se, but the inability of poor households to afford the rents their units command.[11] Even if there were shortages, subsidized new construction can, at best, have an impact only with a long lag because it is slow to be put in place. Finally, subsidizing new construction may be displacing private construction activity rather than adding to the total housing stock.

Using the existing stock to a greater degree also would enable more assisted households to choose where to live and would prevent the stigma and isolation that may be associated with living in projects specially constructed for lower-income households. In addition, this approach would reduce the common problem of how to target funds for production programs efficiently and would leave it to the private market to determine where new construction would respond to excess demand.

Emphasizing existing-housing aid over production assistance would also reduce discrepancies in the quality of units occupied by recipients of housing aid. Some recipients currently occupy brand new units, whose quality and amenities probably surpass those of many units occupied by noneligible households with slightly higher incomes and by other assisted households. Among the latter group, some households live in old, possibly decaying, public housing projects. Others, assisted with vouchers or Section 8 certificates, have access to

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10. See, for example, the research described in Chapter III.

11. Many analysts contend that the private market has been producing enough rental units to meet overall demand, as evidenced by several indicators. First, recent levels of rental apartment construction have been at their highest since 1974. Second, the rates at which these new rental units become occupied are relatively low, with less than two-thirds of new apartments that were completed during 1987 being rented within three months--the lowest level since 1969. Third, the nationwide rental vacancy rate is relatively high--7.7 percent during 1987, the highest level in 20 years. Units renting between $250 and $500 per month, which is in the range of the average FMR for 1987 for 1- and 2-bedroom units, experienced vacancy rates between 8.2 percent and 9 percent.

physically adequate units that, in order to fit within the rent guidelines, are either of modest design or located in deteriorating neighborhoods, or both.

Another argument in favor of placing increased emphasis on existing-housing aid would be that most very-low-income households that qualify for aid could use these subsidies without having to move from their current units unless they chose to do so. Aggregate statistics on housing needs, such as those presented in Chapter II, show that in 1985, more than 60 percent of all very-low-income renters faced only high rent-to-income ratios, experiencing neither crowded nor substandard housing conditions.[12] Another 15 percent lived in units that needed rehabilitation but had adequate space. Some proportion of those units, particularly those that are only marginally substandard, might be upgraded if the landlords received the higher rents made possible by rental subsidies or could obtain rehabilitation grants or loans. Thus, most very-low-income renters could receive rental aid without moving; the relatively small percentage that would have to move would consist of the 9 percent living in crowded conditions and those households (at most, another 15 percent) living in substandard units that the landlord might be unable or unwilling to repair.

On the other hand, arguments can also be made that additional new construction for lower-income households is needed. National statistics on the adequacy of the supply of rental units, for example, mask local shortages. Most recent new construction has taken place in the West and South, and extraordinarily high rental vacancy rates in some large metropolitan areas--more than 9 percent in Houston, Dallas, Miami, and Phoenix as of 1985--help account for the relatively high national average. By contrast, of the 25 largest metropolitan areas, 12 experienced vacancy rates of less than 5 percent, which many analysts accept as evidence of tight market conditions.

Aggregate supply statistics also do not reveal any nationwide, much less local, shortages in standard dwelling units of particular sizes within HUD's rental guidelines or in dwelling units suitable for

12. Some of these households might have to move if they were to receive a Section 8 certificate and their current rent exceeded the Fair Market Rent. Voucher recipients would not have to move in that case, if they were willing to continue paying more than 30 percent of their income for rent--a likely outcome, since their rent payments would still be lower than without the subsidy.

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the elderly and handicapped. While unsubsidized new construction typically occurs in response to excess demand by higher-income households, findings are inconclusive on the extent to which this eventually increases the housing supply for lower-income households through a "trickle-down" or filtering process. Moreover, units vacated by the higher-income population may not match the needs of the local lower-income population. In particular, many of the nation's large PHAs report that there are shortages of large units in their jurisdictions. Such shortages of suitable units would partially explain why families with children who receive Section 8 certificates or vouchers are somewhat less likely to become program participants than are elderly households.[13] At a minimum, tying aid to projects earmarked for lower-income households would lessen the need to search for adequate housing and may also prevent some lower-income households from having to share units with other households or becoming homeless. Thus, production-oriented programs may continue to be needed in some localities, particularly those with growing lower-income populations.

Aggregate statistics also ignore the fact that large proportions of specific subgroups of households could not be aided through existing-housing programs without moving because their current dwelling units are inadequate and that suitable units within HUD rental guidelines might not be available to them. For example, 35 percent of very-low-income renters with three or more children present would have to move because of crowded housing, while another 14 percent or so might have to move because of substandard housing conditions. Similarly, special needs of many elderly and handicapped people are not met by their current units. While only 11 percent of all very-low-income elderly renters live in physically substandard units, many others live in units that lack services for their special social and physical needs and would probably try to move if living in more expensive units were made possible by government aid. Many households in nonmetropolitan areas also would have to move, because many sub-

13. Data from past studies indicate that around three out of four large families turn back their certificates to the PHAs, compared with roughly one out of two elderly certificate holders. Preliminary national statistics from the housing voucher demonstration study show that the failure rates have decreased and that between 30 percent and 36 percent of elderly households who are issued vouchers or certificates currently fail to become program participants, compared with about 40 percent of nonelderly households. (No separate statistics are currently available on large families.) Failing to find a suitable unit has been found to be one, but not the only, reason for returning certificates or vouchers.

standard units have serious deficiencies that would require substantial rehabilitation rather than the marginal upgrading that occurs under the voucher system.[14] Finally, housing statistics by definition ignore the homeless population, whose acute needs may frequently be better served through transitional housing arrangements combined with social services rather than through independent living arrangements associated with Section 8 certificates or vouchers.

A final argument presented against phasing out production-oriented programs involves the potential loss of some units from the currently assisted inventory as they are transformed into housing for higher-income people or demolished to make room for alternative land uses. These losses will exacerbate any existing shortages in units available to lower-income households, particularly in already tight housing markets. Thus, federally assisted housing construction rather than vouchers may be needed to replace these lost units in many parts of the country.

Section 8 Existing-Housing Certificates versus Vouchers

If the existing stock is to be used to house the poor, the mix between Section 8 certificates and the recently authorized vouchers must be determined.[15]

Recipients of both Section 8 certificates and vouchers must select units that meet the program's quality standards. Unlike Section 8 certificates, however, vouchers allow households to select units with rents higher than the payment standards set by HUD, provided the households pay the excess rent. Also, if voucher recipients select a unit below the payment standard, they may retain the difference. Thus, the government's subsidy cost for a Section 8 certificate varies

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14. In the past, more than half of all units subsidized with Section 8 existing-housing certificates in rural areas have failed to meet the program standards upon inspection. This failure suggests that certain defects are overlooked by inspectors when households are admitted to the program. See Department of Economics, Appalachian State University, *Evaluation of the Section 8 Existing Housing Program in Rural Areas* (June 1982).

15. As of this writing, the voucher program is being evaluated in a HUD study. Early results of this study, which compares the use of Section 8 certificates with vouchers, are presented in Abt Associates, Inc., *Report of First Year Findings for the Freestanding Housing Voucher Demonstration*, prepared for the Department of Housing and Urban Development (June 26, 1987).

both with the unit's actual rent and the household's income, while the cost for a voucher varies only with the household's income. Once a unit is subsidized, rents are adjusted annually by HUD under the Section 8 certificate program; under the voucher program, annual adjustments are made by the PHA.

Because of these differences in design, vouchers provide households with greater flexibility in choosing where to live and how much of their income to spend for housing. This flexibility lessens the pressure of having to find units with rents within the limits stipulated by the Section 8 program and, in principle, reduces the risk of being unable to participate in the program because of failure to find such units. Early results from the voucher demonstration study show, however, that in the aggregate, success rates for the first round of applicants were the same for voucher and Section 8 certificate recipients--roughly 60 percent. Only among elderly households were success rates higher for voucher recipients than for Section 8 recipients, largely because vouchers have no rent restrictions, thus permitting more elderly households to remain in their pre-program unit.

The wider choice open to voucher recipients also leads to a greater range in rents and rent-to-income ratios compared with those of Section 8 certificate recipients. Indeed, while 95 percent of all certificate recipients paid between 29 percent and 31 percent of their income for rents, only 11 percent of voucher recipients did, with almost half paying more than 31 percent and the rest paying less than 29 percent.

On the other hand, because households are allowed to keep the difference if their units rent for less than the payment standard, the initial average cost of vouchers will almost certainly exceed that of Section 8 certificates if the payment standard is set equal to the FMR for certificates. During the first year of the demonstration, vouchers cost the federal government, on average, 8 percent more than certificates. This difference may be reduced or eliminated over time, however, if PHAs do not adjust the payment standards as much as HUD increases rents for Section 8 units.

The basic feature of vouchers that allows households to pay the excess rent, if the units they choose rent for more than the payment standards, also may prompt landlords to inflate rents, particularly for households that are reluctant to move out of their current units. This

view presupposes that poor households are less effective in negotiating with landlords than are PHAs, which assess the appropriateness of rents for units assisted through Section 8 certificates. Indeed, preliminary results from the demonstration show that during the program's first year, rents for voucher recipients staying in their pre-program units rose by $41 on average, compared with $29 for Section 8 certificate recipients. It is not known, however, to what extent such increases were accompanied by improved housing--that is, by repairs made to meet the program standards.[16] Furthermore, given that inflation adjustments in the subsidy paid to landlords are at the discretion of the PHAs, any increases in the rent not covered by adjustments would have to be absorbed by the tenants.

New Construction versus Rehabilitation Programs

If the Congress decided to continue supporting additional project-based aid through production-oriented programs, the allocation of funds between constructing new units and rehabilitating existing substandard ones would need to be determined.

An argument in favor of continuing recent trends of concentrating resources on rehabilitation activity and away from new construction is that as long as there are units in the existing stock that could be brought up to par at a cost below that of new construction in the same location, using federal resources to build new units would be wasteful. For example, in 1988, many vacant, uninhabitable public housing units could be rehabilitated for an estimated $26,500 per unit on average, compared with an average of $67,000 for constructing a new unit.[17] Also, federal assistance for rehabilitation of occupied lower-income housing units in various stages of disrepair not only would improve housing quality for the occupants at relatively modest cost, but would prevent further deterioration that might eventually lead to abandonment and permanent loss of these and perhaps other units.

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16. The EHAP experiment found that landlords did not increase rents, but in that case the households, not the landlords, received the subsidy payments. Consequently, the landlord may not have known that the households' ability to pay had risen.

17. The estimate for rehabilitation of these public housing units is based on data provided in Department of Housing and Urban Development, *HUD Perspective on Public Housing Modernization* (March 1988). The average new construction cost is the figure used in the 1988 appropriation for new public housing units.

A policy of rehabilitation rather than new construction would not succeed, however, in areas that lack sufficient lower-income housing but contain few or no units for rehabilitation. Furthermore, targeting rehabilitation funds to areas, or to assisted housing projects, with large numbers of vacant and uninhabitable units might be especially wasteful if the vacancies were caused by a lack of demand. Although rehabilitating occupied units would address the problem of substandard housing for the current occupants, it would not alleviate spot shortages of units available to the poor unless the units would have been abandoned or demolished otherwise.

If funding for production-oriented programs in general were continued, aid could be targeted more closely toward those households for whom vouchers or Section 8 certificates appear least likely to work and toward those areas where the private market is failing to provide an adequate supply of units that meet the specific needs of the local lower-income population.[18] Specific approaches whose feasibility might be investigated include targeting funds for the Section 202 program toward areas with shortages of units designed to meet the special needs of elderly and handicapped groups, targeting public housing construction funds for production of units for large families, and producing new or rehabilitated units in nonmetropolitan areas with shortages in standard rental units. Unfortunately, however, such targeting efforts might be impossible to carry out at the federal level because, other than the decennial census, there are no national data that would reveal such local shortages.[19] Thus, implementing this approach might require transferring more spending discretion to local decisionmakers.

A policy to continue funding both new construction and rehabilitation programs would entail some further targeting decisions. To increase the net supply of lower-income units, new construction aid could be targeted toward areas with shortages of some or all types of lower-income housing units and with low proportions of substandard units in the vacant housing stock. Rehabilitation funds could be used

18. At present, funds for most housing assistance programs are allocated across the nation based on several fairly broad formulas that consider overall relative housing needs according to factors such as population, poverty, crowding, vacancy rates, and substandard housing conditions.

19. The federal government could rely on local governments to provide estimated updates of census data, but making data comparable across the nation would be difficult.

in other areas to improve vacant substandard units, provided they matched the types most in demand or could be adapted to do so at reasonable cost. For example, small units might be combined, large units subdivided, or special design features or services added, where needed. Finally, a decision to increase the quality of housing occupied by the lower-income population could be accomplished by targeting some rehabilitation funds toward areas with high proportions of substandard units in the occupied lower-income housing stock, as is currently done in the rental rehabilitation program.

CHAPTER V

OPTIONS FOR DETERMINING THE TARGET GROUPS, THE SUBSIDY SIZE, AND THE NUMBER TO SERVE

This chapter takes a closer look at the remaining questions that were introduced in the previous chapter, namely on whom to target the aid, how large a subsidy to provide, and how many households to serve. To facilitate cost estimates, the focus is on options pertaining to rental assistance provided by the Department of Housing and Urban Development. All cost estimates assume that current policy is maintained with respect to program characteristics not affected by the option, unless otherwise indicated.

WHO SHOULD RECEIVE RENTAL ASSISTANCE?

Decisions about who should receive assistance must be made on a recurring basis because of the non-entitlement nature of housing aid. As long as only a portion of all eligible households can receive it, assistance can be distributed in a variety of ways among households with different income, demographic, and locational characteristics. While the Congress has specified the criteria for eligibility, traditionally it has not prescribed in great detail how additional assistance should be distributed among eligible households. Instead, preferences have been revealed to some extent through the program mix for which funds are made available.

The choices about who should receive housing aid depend, ultimately, on whether any groups should be given priority in receiving assistance. Three options are presented here:

- Maintain current eligibility criteria and existing distribution patterns. This option would continue to give priority to elderly households.

- Maintain current eligibility criteria but shift the distribution of aid toward currently underserved groups.

- Change both eligibility criteria and the distribution of assistance to shift aid toward different groups of poor households.

Retargeting housing aid would have cost implications to the extent that the differential between the average rent and income levels of the assisted population changed. Most options discussed here would probably have little cost impact in the short run, because they would only retarget additional aid, which is a very small proportion of the total number of outstanding commitments. The discussion below therefore focuses primarily on the nonbudgetary effects of these options.

Maintain Current Eligibility Criteria and Distribution Patterns

Currently 43 percent of all outstanding commitments serve the elderly, another 43 percent go to households with children, and the remaining 14 percent provide aid to nonelderly households without children present. Assuming that 90 percent of available aid is received by very-low-income renters, current commitments assist about half of all very-low-income elderly households with no children, a little over one-third of very-low-income families with children, and 17 percent of very-low-income nonelderly households without children present.[1]

To continue these distribution patterns, future aid could be distributed so as to preserve either the relative rates at which various groups are currently served or the relative proportions of outstanding commitments they received. If all groups of eligible households grew at the same rate over time, these two strategies would have the same effects; elderly households, however, are expected to increase faster than other segments of the eligible population.

Preserve Rates at Which Groups Are Now Served. To preserve the relative rates at which various demographic groups are served, the distribution of additional commitments would have to reflect both the relative rates of growth in eligible households of each type and the

1. As previously noted, nonelderly households without children can receive aid only under special circumstances. Thus, the proportion of these households that is served is not strictly comparable to the proportions served in the other categories of households.

proportion of aid currently received by each group. Because the elderly as a group are projected to increase at the fastest rate, their allotment of new aid would have to exceed their current 43 percent share of all outstanding commitments and they would have to receive about 48 percent of all new aid. Assuming that current policy--that is, the level of funding and the program mix stipulated in the 1989 appropriation act--would be maintained, this option could be implemented by requiring that 55 percent of new vouchers would be reserved for elderly households, rather than the roughly 32 percent that they would typically receive.

This approach would maintain patterns for which Congress has already revealed its preference. Continuing to serve the elderly at what are historically high rates could be justified because the economic status of a poor elderly household is unlikely to change much over time. Nonelderly adults and their families' financial positions might be helped more in the long term if they received federal aid to enhance their employment opportunities.[2] In addition, the costs of helping the elderly to maintain independent living arrangements, perhaps coupled with the types of congregate services (such as meals, housekeeping, and health care) available in projects designed for them, would be offset to some degree by lower federal expenditures for long-term care.

Preserving the status quo, however, would perpetuate indefinitely the uneven rates at which various household types are served, with much lower proportions of nonelderly households receiving assistance. Yet some of these underserved groups, particularly large families, have experienced housing problems much more frequently than the elderly, as shown in Chapter II. Furthermore, over time this approach would lead to rising shares of total aid going to the elderly.

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2. Comparing the economic status of the elderly as a group with that of families with children is a complicated matter. Using the official measure of poverty, the proportion of elderly households below the poverty line has decreased while the proportion of families with children in poverty has increased over the past decade. On the other hand, the proportion of elderly households with incomes between 100 percent and 125 percent of poverty is higher than that of families with children. Taking account of in-kind benefits provided by the government makes evaluating the relative positions of the two groups even more difficult, while the impact of employer-provided fringe benefits cannot be assessed at all with currently available data. For more detailed analysis, see Congressional Budget Office, *Trends in Family Income: 1970-1986* (February 1988).

Preserve Current Proportion of Commitments Received. New aid also could be made available in proportion to the current distribution of outstanding commitments--that is, 43 percent to elderly households and 43 percent to families with children. This option could be implemented roughly by reserving these proportions of new vouchers for each of these groups.

Maintaining the status quo in this way would make more even the rates at which various types of households are served, because it would not take into account the relatively high near-term increase in the number of eligible elderly households. On the other hand, it would not recognize what some observers consider to be a greater need and governmental responsibility to assist the elderly than to aid families with children. Also, distributing new assistance in this way would increase the federal cost per household somewhat compared with the previous option, because of the relatively larger and more expensive units required by families with children.

Maintain Current Eligibility Criteria but Shift Distribution of Aid Toward Underserved Groups

Shifting the overall distribution of rental assistance toward underserved groups could be accomplished by targeting new aid toward these groups, by redistributing currently outstanding commitments, or both. Because the majority of outstanding aid is tied to specific projects, however, shifting these commitments to different groups would involve adapting these projects to a different use. Since this would be infeasible in some cases and extremely expensive in many others, such options were not examined. The options presented here only involve the distribution of new aid, which could be distributed according to each group's proportion in the eligible population or so as to equalize the proportion of the various types of very-low-income households served.

Distribute New Aid According to the Groups' Share in the Eligible Population. New housing commitments could be apportioned according to the relative sizes of various groups of eligible households in the very-low-income population. If all single-person households and groups of unrelated individuals--many of whom are not automatically

eligible for aid--were excluded when determining the size of the eligible population, 37 percent of all new commitments would be reserved for elderly households without children, 8 percent for nonelderly families without children, 38 percent for small families with children, and 17 percent for large families with children. This pattern corresponds roughly to the program mix of the 1989 appropriation.

Continuing this approach would ensure that, at a minimum, future aid was distributed proportionately, but existing commitments would still be unevenly distributed. Thus, the overall distribution would continue to favor elderly households.

Distribute New Aid to Equalize the Proportion of Very-Low-Income Households Served in Various Groups. Another approach would be to distribute future aid so that the proportion of eligible families with children served would eventually equal the proportion of eligible elderly households served. This goal could be accomplished by gradually augmenting the number of commitments for very-low-income families with children by a total of 850,000 to obtain a proportion served of about 51 percent--similar to that of the elderly--while declaring a moratorium on additional aid to the elderly. Once the additional commitments had been phased in, annual commitments for all types of eligible households could be provided to match the various growth rates of the different groups.

This option would eventually eliminate uneven treatment of different types of households without taking aid away from any household that is currently assisted. Moreover, turnover of outstanding commitments--about 20 percent a year among renters--would continue to provide aid to some new elderly participants, even during the moratorium on additional commitments for this group.[3]

On the other hand, because treatment is so uneven, a moratorium for elderly households might have to last more than nine years, if recent trends in appropriations for additional annual rental commitments--around 94,000 per year for HUD programs--were to continue. (This process could be hastened, however, by shifting outstanding Section 8 existing-housing aid to families with children when elderly

3. Average turnover rates among assisted elderly renters may, however, be lower than 20 percent.

households leave this program.) Furthermore, to the extent that the poor elderly population continues to grow, a moratorium on additional aid would exacerbate hardships for this group.

Change Eligibility Criteria to Redistribute Aid

Aid could be retargeted toward specific subgroups by changing qualifications for eligibility. Such changes could include expanding eligibility criteria to make single-person households and groups of unrelated individuals fully eligible for assistance, limiting eligibility to households with housing problems, and reducing income-eligibility limits.

Make All Nonelderly Childless Households Fully Eligible and Distribute New Aid According to the Groups' Share in the Eligible Population. Nonelderly, nonhandicapped people who live alone or share dwellings with unrelated individuals can receive housing assistance now only under limited circumstances and in many cases only with HUD's approval (see Box 2 in Chapter II for details on the conditions that must be met). These restrictions could be lifted to make all 3.5 million very-low-income nonelderly households without children fully eligible for assistance--up to 2.7 million more than at present.[4] If new aid were then distributed according to each group's share in the eligible population, 29 percent would go to each of the groups of elderly and nonelderly households with no children, and 29 percent and 13 percent to small and large households with children, respectively.

This strategy would help a group that appears to have the same level of housing problems as other groups. For example, almost one-fifth of all very-low-income nonelderly renter households without children lived in units requiring rehabilitation in 1985. This approach would also address the problem of homelessness to which single men in particular are vulnerable. It could also contribute to better use of assisted housing projects--especially in public housing. Some anecdotal evidence suggests that efficiency units in this housing stock have a high vacancy rate that is commonly the result of elderly

4. The exact number is difficult to determine because income data on groups of unrelated individuals are unreliable and because an unknown number of households in this group already meet the eligibility criteria not related to income.

households'--the typical occupants--moving to higher-quality Section 202/8 projects. Allowing nonelderly one-person households to occupy these units would increase project revenues, thereby reducing the need for operating subsidies and perhaps also reducing the likelihood that public housing agencies (PHAs) would have to dispose of such projects.

On the other hand, many households in this group--for example, individuals who are young and just starting careers--would only temporarily have very low incomes. Under current policy, these individuals would continue to receive assistance even after their economic position had improved. This form of in-kind aid also might provide employment disincentives, and job-training might be a better investment of taxpayers' money in the long run.

Make All Nonelderly Childless Households Eligible but Limit Eligibility to Households with Housing Problems and Distribute New Aid According to Unmet Needs. New housing commitments could be distributed according to unmet housing needs across various groups, including nonelderly households without children. In 1985, approximately 9.8 million very-low-income renter households experienced high housing costs relative to their income, substandard housing conditions, crowding, or a combination of these conditions.[5] Around 25 percent of them were elderly households, 30 percent were nonelderly households without children, 30 percent were small families with children, and the remaining 14 percent were large families with children. Additional aid could be limited to needy households and distributed across groups according to these percentages.[6]

This strategy would address the somewhat uneven distribution of remaining housing problems. In particular, it would target new resources to groups that continue to experience problems at relatively

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5. This figure has been adjusted to account for some shortcomings in the American Housing Survey. The sample of households for whom combinations of housing problems can be measured is restricted to the subsample of households for whom the ratio of housing costs to income could be computed. For 1985, this reduces from 11.7 million to 11.1 million the number of very- low-income renters for whom statements can be made. CBO's analysis assumes that the households with missing data had the same likelihood of having one or more problems as their counterparts for whom data were available.

6. This approach assumes that the proportion of households with housing problems has not changed since 1985.

high rates, either because they have been underserved by housing programs or because they have a higher propensity to experience one or more housing problems.[7]

On the other hand, limiting new aid to households with housing problems as defined here might penalize frugal households that manage to find and keep units in standard condition without housing aid, as well as households who require special physical or social services that are not available in their current units but who do not have enough resources to rent units that do meet those needs. In addition, this strategy might provide perverse incentives to households to undermaintain their current dwelling units or to move into expensive units in order to qualify for assistance.[8]

Make All Nonelderly Childless Households Fully Eligible, Reduce Income-Eligibility Limits, and Distribute New Aid According to the Groups' Share in the Eligible Population. In order to serve a larger proportion of the neediest households in all demographic groups and locations, the income limits for eligibility could be lowered to, say, 40 percent of the area median with adjustments for family size. This reduction could be accomplished gradually--without penalizing current recipients who would become ineligible under the new criteria--by changing the rules for outstanding commitments as they turn over and by applying them for any new commitments.

The current pool of outstanding rental commitments would be sufficient to serve about 46 percent of the close to 10 million renters with income below 40 percent of the area median in 1988, once such an eligibility restriction was fully phased in. Assuming that all current commitments for the elderly remained with the elderly and that all commitments for families stayed with families, outstanding commitments under this strategy could eventually serve 68 percent of very-low-income elderly households, 45 percent of very-low-income house-

7. Under current law, PHAs must give preference to families that spend more than 50 percent of their income on housing, to families that live in substandard housing, and to displaced families, but the statute does not require specific amounts to be set aside for groups experiencing these problems at high rates.

8. These incentives would be more likely to arise if housing assistance were an entitlement program for households with housing problems. Without an entitlement, households would run the risk of living in expensive or bad housing and still not receiving aid.

holds with children, and 24 percent of very-low-income nonelderly households with no children.

This strategy would target scarce resources toward people most in need and would lessen the necessity to ration aid, because a higher proportion of eligible households could be served. Furthermore, with aid being distributed among smaller eligible groups, discrepancies in that distribution could be reduced more easily, though not eliminated, since various groups would probably participate at different rates.

On the other hand, many of the working poor would no longer be eligible for housing aid. Their ineligibility would restrict their housing choices and perhaps their ability to obtain housing near their jobs, thus potentially limiting their employment opportunities as well. In addition, households that would become ineligible receive fewer in-kind transfers, such as Medicaid and food stamps, than do households in the lowest part of the income distribution. Thus, some newly ineligible households could actually be worse off than some of the households that would continue to qualify for housing aid. Also, a more limited economic mix of households might make the living environments in assisted housing projects less desirable and large concentrations of very poor households in these projects would, in many areas, defy the goal of racial integration. Finally, this strategy would increase federal outlays, because serving a poorer population would increase the subsidy per household.

HOW LARGE SHOULD THE SUBSIDY BE?

Questions about how large the subsidy should be involve trade-offs among the average cost to the government, the out-of-pocket expenditure required from the household, and the federal guidelines for rent or construction costs, which in turn help determine the quantity and quality of dwelling units available to assisted households. Decisions about whether and how to change the size of the subsidy depend on what goals are to be achieved. For example, decreasing the average federal subsidy would allow more households to be assisted with a given amount of federal expenditures, more funds to be made available for other government functions, taxes to be reduced, or the federal deficit to be lowered. Strategies to reduce subsidies include increasing

the contribution of some or all households toward rent or lowering the maximum allowable rent for some or all units.[9]

Alternatively, increasing the size of subsidies would be one way to address specific problems encountered by certain subgroups, such as the limited availability of certain types of dwellings within established rent guidelines and work disincentives. Strategies that would increase subsidies and would help meet these particular needs include increasing allowable rents for large dwellings and providing adjustments for earned income. Such strategies would increase program costs, however, unless aid to others was cut simultaneously.

Lower the Subsidies

Three strategies to reduce average assistance payments are analyzed here--increasing the proportion of income contributed toward rent, decreasing adjustments to income, and reducing allowable rents. Their budgetary effects are shown in the top panel of Table 13. Other strategies for lowering subsidies include changes in the program mix, which were discussed in the previous chapter.

Increase Households' Contributions. Average subsidy payments could be decreased by reducing benefits for some or all current and future participants through an increase in tenants' rent payments. Before 1981, assisted tenants generally contributed 25 percent of their adjusted income toward housing costs. The 1981 Omnibus Budget Reconciliation Act (OBRA) raised rent payments to 30 percent of adjusted income, with the increase to be phased in over five years. The 1983 Housing and Urban-Rural Recovery Act (HURRA) mitigated this increase in out-of-pocket expenditures somewhat, however, by increasing allowable deductions for most households and thus decreasing adjusted income.

Increasing tenants' rent contributions again over a five-year period to, say, 35 percent of adjusted income, would yield $1.3 billion in annual savings in 1993, when 80 percent of the increase would be

9. These alternatives are the same when vouchers are used, since lowering the payment standard would automatically increase the household's out-of-pocket expenditure.

TABLE 13. BUDGETARY EFFECTS OF OPTIONS THAT WOULD CHANGE THE AVERAGE SUBSIDY, 1990-1993
(In millions of dollars)

Changes from CBO Baseline[a]	Annual Changes 1990	1991	1992	1993	Total 1990-1993
Lower the Subsidies					
Increase Households' Contributions to 35 Percent of Adjusted Income					
Budget Authority	100	250	400	550	1,300
Outlays	250	550	900	1,300	3,100
Decrease Adjustments to Income for Some Recipients					
Budget Authority	50	50	50	50	250
Outlays	150	150	150	150	600
Reduce Allowable Rents[b]					
Budget Authority	400	2,600	2,600	2,600	8,200
Outlays	350	900	1,300	1,500	4,000
Raise the Subsidies					
Increase Allowable Rents for Large Rental Units					
Budget Authority	-200	-1,200	-1,100	-1,100	-3,600
Outlays	-100	-200	-200	-250	-700
Allow an Adjustment to Income for Earned Income					
Budget Authority	-150	-150	-150	-150	-600
Outlays	-300	-300	-350	-350	-1,300

SOURCE: Congressional Budget Office.

NOTE: Positive numbers reflect savings in expenditures relative to the CBO baseline. All options assume that appropriations for public housing operating subsidies would be adjusted to reflect savings or increased expenditures. See text for additional details on each option.

a. The CBO baseline is the November 1988 baseline, which projects budget authority and outlays through 1993. This baseline incorporates CBO's August 1988 economic assumptions and assumes a continuation of the program mix and level of funding stipulated by the 1989 appropriation, adjusted for inflation. It also assumes that all expiring subsidies are renewed with subsidies of the same type.

b. This option would link Fair Market Rents to income-eligibility limits.

phased in. These funds could be used that year to assist about 246,000 additional households through the Section 8 existing-housing or voucher program, depending on the Congress's priorities among spending programs, deficit reduction, and other goals. (More households could be assisted once the increase was fully phased in.)

A variant of this approach would be for tenants to pay rent on a sliding scale, with higher-income households paying a larger share of their income. This type of approach could be designed to avoid benefit notches--that is, noticeable changes in housing costs when income rises by a small amount. One example of such a scheme would be for households to contribute 30 percent of the portion of income between 0 and 10 percent of the area's median income; 34 percent of income between 10 percent and 30 percent of area median income; 38 percent of income between 30 percent and 50 percent; and 42 percent of any income in excess of 50 percent of the area median.[10]

Using the savings to assist more very-low-income households would help equalize the distribution of housing assistance without affecting federal spending. As of 1985, roughly half of all very-low-income renters, almost 5.7 million, paid more than half their income for housing costs; increasing the share of income paid by subsidized households therefore might not seem unreasonable as a means of lowering housing costs for some currently unassisted households. In addition, as the Experimental Housing Allowance Program (EHAP) found, higher rent-to-income ratios would make assisted housing programs unattractive to higher-income households, thus targeting aid to those most in need.

On the other hand, many eligible households would remain unserved and current recipients would pay more for housing, although the second variant of this approach--having tenants pay rents on a sliding scale--would soften the impact for those less able to pay. Furthermore, increasing the rent payments for higher-income households living in assisted projects could, in some areas of the country, cause increased outflows of stable, higher-income tenants, thereby

10. For example, if 10 percent and 30 percent of the area median income were equivalent to $2,500 and $7,500, respectively, a household with adjusted income of $5,000 would pay 30 percent of the first $2,500 ($750) and 34 percent of the next $2,500 ($850), for an average contribution of 32 percent.

reducing the viability of the projects and increasing the average cost of subsidizing them.[11]

Decrease Adjustments to Income for Some Recipients. Benefits could also be cut by reducing the deductions that are permitted from tenants' gross income to arrive at adjusted income. Current deductions, specified by HURRA in 1983, include: $480 per minor member of each household; $400 if the household is headed by an elderly or handicapped person; medical expenses above 3 percent of income if the household is headed by an elderly or handicapped person; and, for all households, dependent-care expenses necessary to permit adult members of the household to work or attend school.

Reducing the deduction per minor to, say, $400 and the deduction for elderly or handicapped heads of household to $300, while leaving other deductions unchanged, would raise rents for families with children by $2 per child per month and for elderly (or handicapped) families by $2.50 per month. Such changes would generate $150 million in savings in 1990.[12] Alternatively, almost 29,000 additional households could be served.

This strategy would rescind some of the gains in benefits given to the elderly and large families by HURRA. Many households with children stand to benefit substantially from the new tax code, however, which increases the personal exemption and liberalizes the earned income tax credit (EITC) for low-income workers with dependents. Thus, reducing their housing subsidies would not worsen their net position by much and would free up some funds that could be targeted toward other households with low incomes.

The adverse impact of this approach, however, would be relatively greater for the poorest households, because their rents would rise more as a percentage of gross income. In addition, the new tax code will not benefit many of the poorest households, because they had no

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11. The Housing and Community Development Act of 1987 allows PHAs, with the approval of HUD, to establish five-year caps on rents paid by households in public housing projects to stem the reported outflow of higher-income households from such projects in various parts of the country.

12. Before HURRA, adjustments to income were specified by regulations rather than by statute. For the Section 8 program, those regulations allowed deductions of $300 per minor, excess medical expenses for all families, and certain expenses for dependent care. No additional deductions were allowed for elderly families.

taxable income under the previous tax law and will not be affected by the changes to the EITC.

Reduce Allowable Rents. Another way to reduce average assistance payments would be to cut the maximum rent that the government would subsidize. For example, for household-based subsidy programs, the Fair Market Rents (FMRs) and voucher payment standards could be frozen, with no inflation adjustments permitted for rents of currently assisted units for one or more years. Such actions would effectively lower the FMR and the voucher payment standard to levels below the current norm, which equals the 45th percentile of rents paid by households that have moved into a standard, existing, nonsubsidized dwelling during the past two years.[13] This option (not shown in Table 13) would reduce outlays by $300 million in 1990, which could fund almost 69,000 additional vouchers.

A variant of this strategy would be to limit the local FMR and the voucher payment standard to, say, 30 percent of the income of a household that is just eligible--that is, whose income is at 50 percent of the area median, adjusted for family size. Housing subsidies would be phased out for households as their income approached the eligibility limit.

In fiscal year 1988, for example, the nationwide median family income used by HUD in determining eligibility was $32,400. Setting the comparable nationwide FMRs for an eligible family of four at 30 percent of 50 percent of this income level would have resulted that year in an FMR of $4,860 compared with the actual FMR for a two-bedroom unit of $5,604. This option could be implemented immediately for newly issued certificates and vouchers by reducing FMRs by about 12 percent in 1990. For households already receiving assistance, it could be phased in over several years--for example, by freezing rents at their 1989 levels through 1992. In 1993, this option would save $1.5

13. Freezing rents would be difficult to carry out in the project-based programs, where the initial rents for newly constructed units are directly related to construction and operating costs. If the Congress were willing to insist on more modest designs, however, construction costs and initial rents could be reduced. Furthermore, the federal government could not freeze rents for many projects already in the assisted inventory, because it is contractually obligated to adjust annually the rents to which the owners are entitled. Such adjustments are, however, limited to increases in rents on comparable units in the rest of the local housing stock. Thus, in some areas, rents received by owners of newly constructed, assisted projects may eventually be as low as the FMRs for existing-housing programs.

billion, which could fund about 317,000 additional vouchers (see Table 13).

Lowering the rents, and thus the proportion of the existing stock potentially available to the eligible population under the Section 8 certificate program, would be consistent with the decrease in the size of the primary target group that resulted from the Housing and Community Development Amendments of 1981. Those amendments strictly limited the number of recipient households with income between 50 percent and 80 percent of the area's median income. It would also mean that housing costs for already assisted tenants would not necessarily have to rise. Furthermore, reducing the levels of assistance would lower participation by higher-income households, thus implicitly targeting federal funds toward households most in need.

An advantage of linking FMRs to income-eligibility limits is that it would eliminate the current uneven treatment of households with income somewhat above the eligibility limits. Under present regulations, once households become recipients, they continue to receive housing assistance until their adjusted income increases to the level where 30 percent equals the rent. Consequently, even though their income has risen above the eligibility level, they receive assistance because they were once poor.[14]

Reducing allowable rents, however, would create problems for certain subgroups of assisted households. Under current regulations of the Section 8 existing-housing program, unless landlords absorbed the decrease in real rents, more households with newly issued Section 8 certificates would be unable to find standard units within the rent guidelines. Moreover, landlords might provide fewer services to households that had been participating in the program, or might drop out of the program, thereby forcing tenants to choose between moving to a new unit or losing their subsidy. These effects could be avoided if the Section 8 regulations adopted the voucher rule of allowing households to pay more than 30 percent of their income for housing. In that case, freezing or reducing the payment standard would be equivalent to raising households' contributions toward rent.

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14. For example, using the 1988 nationwide averages, the income-eligibility cutoff for a family of four was $16,200. If an assisted family of this size occupied a two-bedroom unit that rented for $5,604 per year, it would have continued to receive assistance until its adjusted income reached $18,680.

A disadvantage of linking FMRs to income-eligibility limits is that it would break the tie of FMRs to actual housing costs in the area. In tight housing markets, rents would be higher relative to income than in loose housing markets. Thus, tying FMRs to local income levels would worsen the plight of households in tight housing markets, by making smaller proportions of the housing stock available (under the certificate program) or affordable (under vouchers), relative to those in loose markets.

Raise the Subsidies

To address the special needs of certain subgroups of renters, the subsidies provided for some households could be increased. Two such strategies are considered here. The first would address the problem of very large families that have difficulty finding housing units within HUD's rental guidelines; the second would help households that face decreases in government aid when members enter the labor force. The benefits of such options would have to be weighed against higher government expenditures or a smaller future pool of households that could be assisted with a given level of expenditures. Budgetary implications of these strategies are shown in the bottom panel of Table 13.

Increase Allowable Rents for Large Rental Units. Large families appear to have more difficulty in becoming program participants than do other types of households. For example, HUD data indicate that in the past, about three-quarters of families with four or more children that received Section 8 certificates returned them, in many cases because they could not find suitable units.[15] In 1983, HUD modified its computation of FMRs and, in particular, increased FMRs for large units. Reliable data on the experience of large families are not yet available, however, to indicate the current national scope of this problem.[16]

To the extent that this problem continues in areas with tight housing markets, public housing agencies could be permitted, when

15. President's Commission on Housing, *The Report of the President's Commission on Housing* (Washington, D.C., 1982), p. 41.

16. As noted in the previous chapter, the voucher demonstration study does not report separately results for large families, but suggests that aggregate success rates have increased since 1979.

needed, to increase allowable rents for large units by more than the currently allowed 20 percent above the local FMR or to increase FMRs for large rental units across the board. These strategies would raise the potential cost of all new commitments for large families, while outlays for currently assisted households would only be affected when certificates or vouchers turned over to another household or when current recipients moved to new dwelling units. Given that an estimated 20 percent of all units turn over annually and roughly one-quarter of all units with household-based subsidies have three or more bedrooms, raising FMRs and voucher payment standards for such units by 20 percent would increase outlays over the 1990-1993 period by $700 million.

By widening the range of units available to large families, this option might reduce the proportion of large families that return their certificates because they fail to find suitable housing. Moreover, families receiving vouchers with higher payment standards would be less likely to have to pay more than 30 percent of their adjusted income for housing.

This strategy, however, would allow all large families, including both current and new recipients, to move into more expensive units and thus would also benefit households that did not need this additional help. In particular, if success rates did not improve much, most of the additional outlays would be spent on households that would have succeeded anyway in finding dwelling units within the current rent guidelines.[17]

Allow an Adjustment to Income for Earned Income. To encourage assisted households to seek or retain employment, the Congress could permit a certain percentage of wages to be deducted from gross income to arrive at adjusted income, either permanently or temporarily. A permanent deduction of 10 percent of earned income for all households

17. Under current administrative practices, PHAs receive $45 in additional administrative fees to assist in finding units for hard-to-house families--that is, families with three or more children present. No data exist to assess whether this extra fee has increased the success rate of large families in finding suitable units. Thus, one might argue that implementing any further strategies to help large families should be postponed until more is known about the impact of this recent change.

with wage income, for example, would increase outlays by $1.3 billion over the 1990-1993 period.[18]

This option would reduce work disincentives that are generated because cash and in-kind benefits from federal and state governments decline as income from earnings rises. Thus, it might, in the long run, contribute to more households no longer needing--or needing smaller--housing and other federal subsidies.

On the other hand, given that housing assistance is not an entitlement, recipients are already much better off than their eligible but unassisted counterparts, and this additional subsidy would exacerbate these differences. The increase in outlays from adopting this option could be used instead to fund 58,000 new vouchers. Also, this strategy might have only a relatively small impact on participation in the labor force while generating substantial federal costs related to those who would be employed anyway.

HOW MANY HOUSEHOLDS SHOULD BE SERVED?

The non-entitlement nature of housing assistance also means that decisions about the number of households to assist must be made each year. As noted above, currently available commitments, including those that are still being processed, can serve no more than 38 percent of all very-low-income households in 1988. Thus, close to 8 million of these eligible households will remain unserved. Traditionally, some additional commitments have been funded each year, thus expanding the pool of households receiving aid while adding to program outlays in the years to come.

The number of households to receive assistance could be decided in several ways. The following approaches are illustrated here:

18. This option was included in H.R.4, the housing bill passed by the House in 1987, but was not part of the Housing and Community Development Act of 1987. This act has addressed this issue to some extent for public housing residents, by permitting rent increases generated by gaining employment to be phased in over a period of six months.

- Housing assistance could be phased out by allowing existing contracts to expire and private owners to remove their units from the assisted stock, while providing no new commitments to replace them.

- The total number of assisted households could be frozen at the present level by funding only current commitments.

- The current pool could be expanded by funding some net additional assistance each year.

- Housing assistance could be made an entitlement.

Phase Out Housing Assistance Commitments

Housing assistance could be scaled down and eventually phased out by appropriating no further funds for new commitments, for operating subsidies for public housing, or for replacing commitments lost because contracts expire or owners opt out of the programs. Operating subsidies for public housing could be stopped immediately or phased out over time to allow PHAs an adjustment period for obtaining financial assistance from other sources or perhaps selling the projects.

The phasing-out process would take place over a long period, from 1989 through 2030. The bulk of outstanding subsidies provided under the Section 8 existing-housing program will expire during the 1990s, while most current subsidies provided through the Section 8 new construction and substantial rehabilitation programs will expire early in the next century. The potential for losing assisted units because owners choose to withdraw from their obligations also peaks during the 1990s.

Compared with current policy, this approach would reduce federal expenditures for housing programs by $18.4 billion over the 1990-1993 period, assuming that all operating subsidies for public housing would be stopped immediately, as shown in the top panel of Table 14. (If those operating subsidies remained in force for all units over this period, total reductions in federal expenditures would be $12.2 billion.) The funds freed up by phasing out housing assistance could pro-

TABLE 14. BUDGETARY EFFECTS OF OPTIONS SERVING DIFFERENT NUMBERS OF HOUSEHOLDS, 1990-1993 (In millions of dollars)

Changes from CBO Baseline[a]	Annual Changes				Total 1990-1993
	1990	1991	1992	1993	
Phase Out Housing Assistance[b]					
Budget Authority	10,400	36,800	31,500	28,700	107,400
Outlays	850	3,600	5,800	8,100	18,400
Number of Households Served	18,900	379,900	671,600	962,000	962,000
Retain Current Number of Assisted Households					
Budget Authority	4,600	4,700	4,900	5,100	19,400
Outlays	250	900	1,600	2,200	5,000
Number of Households Served	48,700	107,700	176,600	255,400	255,400
Gradually Expand Number of Commitments					
Keep Constant the Proportion of Eligible Households Served					
Budget Authority	1,500	1,500	1,500	1,600	6,100
Outlays	50	250	400	550	1,300
Number of Households Served	14,200	32,900	55,300	80,300	80,300
Continue Expansion Under Current Policy					
Budget Authority	0	0	0	0	0
Outlays	0	0	0	0	0
Number of Households Served	0	0	0	0	0

SOURCE: Congressional Budget Office.

NOTE: Positive numbers reflect savings in expenditures and decreases in the number of households served, relative to the CBO baseline. All figures reflect the impact of the options on both household subsidies and disbursements of Section 202 loans. See text for additional details on each option.

a. The CBO baseline is the November 1988 baseline, which projects budget authority and outlays through 1993. This baseline incorporates CBO's August 1988 economic assumptions and assumes a continuation of the program mix and level of funding stipulated by the 1989 appropriation, adjusted for inflation. It also assumes that all expiring subsidies are renewed with subsidies of the same type.

b. Cost figures assume that public housing operating subsidies would be stopped as of 1990. The number of households served through public housing is assumed to be the same as under current policy, however, because these households would continue to benefit from construction subsidies that were funded from past appropriations.

vide general income supplements to all currently eligible households, support other national needs, or reduce the federal deficit. For example, the 1990 level of expenditures--if fully transformed into cash grants--could provide about $1,260 per very-low-income renter household that year, or $680 per household if very-low-income homeowners were included in the target group of such a program.

One argument that housing assistance is no longer needed is that a relatively small proportion of poor households now live in low-quality housing. Also, poor households faced with high housing costs might be better served through a general income supplement, which would allow them more flexibility in their spending choices. In fact, housing subsidies through Section 8 certificates and vouchers are quite similar to general income transfers in their impact on households, and are identical for households that already live in standard dwelling units and remain there upon receipt of the subsidy.[19] Moreover, if funds were used for general income subsidies, this approach would eventually eliminate the uneven treatment of poor households by substituting an entitlement transfer payment for a nonentitlement housing subsidy. Finally, such cash grants would be cheaper to administer than housing aid because they would not require ongoing inspections to enforce minimum housing standards.

On the other hand, this approach would increase housing costs for families no longer receiving aid. Even if all currently eligible households received an income subsidy, it would be smaller than the lost housing subsidy that had been available only to a limited number of poor households. Thus, some households that could not afford to pay higher rents would be forced to move from their current residences upon losing their housing subsidies, unless their landlords reduced their rents. Furthermore, the EHAP experiment suggests that, because of the absence of requirements to occupy standard housing, general income transfers do not necessarily lead to households' occupying standard housing, particularly if the increase in each household's

19. Under the EHAP experiment, renters receiving housing subsidies spent, on average, only 16 percent of them on increased housing expenditures--presumably thereby achieving better housing--with the rest going for nonhousing items. By comparison, renters receiving the same amount in unrestricted cash spent around 8 percent of it for better housing. Thus, programmatic factors--mostly minimum housing standards--associated with aid tied to housing explained about half of the increased expenditures by recipients of housing subsidies.

income were small.[20] Consequently, this approach would do little to improve housing conditions for households living in substandard housing and might cause some households to move from standard to substandard units.

Retain the Current Number of Assisted Households

An alternative to phasing out assistance would be to retain the current number of assisted households by renewing expiring commitments and replacing those that would be lost because owners opted out of the programs. The funds that otherwise would have been appropriated for net additional assistance could be used, for example, to provide general income subsidies to poor households or to keep down federal expenditures.

Budget authority requirements would be restricted to the cost of replacing subsidies for households whose contracts expired or whose landlords opted out of the program, and funding for modernization and operating subsidies for public housing. Although the total number of assisted households would remain constant after all recent commitments had worked their way through the processing pipeline, total annual outlays would continue to rise over time. Subsidies per household would increase as a result of rent inflation and because replacement subsidies for households whose landlords opted out of a particular program might be higher than their previous levels. Nevertheless, this option would reduce federal outlays for housing programs by an estimated $5 billion over the 1990-1993 period compared with current policy (see middle panel of Table 14).

In contrast to eliminating housing aid, households that relied on housing subsidies in making their consumption choices would continue to be served, so disruptions would be minimal. Moreover, the pool of outstanding commitments would continue to aid many new

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20. Although the EHAP experiment found that the minimum housing standard requirements associated with housing aid increased expenditures for housing relatively little, this increase in expenditures was sufficient to raise the likelihood of recipients living in standard housing by 30 percentage points. This result occurred primarily because repairs required for units occupied by households that stayed in their current dwelling after receiving the subsidy--who made up 60 percent of all recipients--were relatively inexpensive. Among households receiving cash grants, however, no noticeable increase occurred in the proportion occupying standard dwelling units.

income-eligible households because of turnover among assisted renters. As the number of eligible households continued to grow over time, however, the proportion of eligible households served would decline, exacerbating the existing uneven treatment of households in similar economic circumstances and increasing the need to ration aid.

Gradually Expand the Number of Housing Assistance Commitments

If the Congress chose to continue to expand program coverage, various benchmarks could be used to determine how many net additional households to serve. For example, the number of additional commitments funded could be just sufficient to keep constant the proportion of eligible households that are assisted. Alternatively, current policy could be continued--that is, funding could be provided at the 1989 appropriation level adjusted for inflation. The budgetary effects of these two options are shown in the bottom panel of Table 14.

Keep Constant the Proportion of Eligible Households Served. Just enough additional commitments could be provided to keep the share of the eligible population served at current levels. This approach would assist each year around 67,000 new households under HUD programs. Relative to current policy, outlays would decrease by $50 million in 1990 and by $1.3 billion over the 1990-1993 period.

Continue Expansion Under Current Policy. Alternatively, appropriations of budget authority could be continued at 1989 levels, adjusted for inflation. If program guidelines remained the same, this amount would enable HUD to serve annually about 94,000 additional households. For fiscal year 1990, this option would require $9.9 billion in new budget authority for HUD programs, including funds for public housing operating subsidies. Since all options are compared with a continuation of current policy (as reflected in the CBO November 1988 baseline), this approach would have no budgetary impact.

The first option (serving the same proportion of eligible households) would be less costly than continuing to expand coverage under current policy, but the uneven treatment of households would last indefinitely. The second option would slowly expand the proportion of eligible households served, eventually (over the very long term) becoming essentially the same as an entitlement program. Moreover,

the budgetary impact would be felt gradually rather than immediately. Uneven treatment of poor households and the need for rationing aid would persist for many years, however. Both options would increase federal spending--though not relative to current policy--thereby raising the deficit unless other offsetting changes to spending programs or tax provisions were also made.

Make Housing Assistance an Entitlement

Finally, housing aid could be made into an entitlement for all households that qualify. In contemplating the design of such a program, the Congress would be faced with all the basic issues discussed in this chapter--trade-offs among program costs, the number of households that would be eligible for such aid, the share of income that households would contribute, and the type of assistance that would be made available. Federal outlays would vary with the program design and would be increased by such factors as including more households in the eligible population, higher participation rates, lower household contributions toward rent, and a more expensive program mix.

Estimating the cost of any type of entitlement program is complicated because the cost would depend on household participation rates, which are difficult to predict. Experience with EHAP has shown that participation in a voucher-type entitlement program, for example, depends on several factors, including households' characteristics, the size of the subsidy, the program's housing standards, and the effort made to inform eligible households that aid is available. That experiment suggests that, once fully phased in, an entitlement program for all renter households classified as very-low-income would aid about 58 percent of all such households. Participation rates by various types of households would vary substantially, however. For example, about 80 percent of eligible elderly renters living alone and of eligible single-parent families with children would probably participate, but only about 40 percent of nonelderly couples without children would.[21]

21. These estimated participation rates are derived from Jill Khadduri and Raymond J. Struyck, "Housing Vouchers for the Poor," *Journal of Policy Analysis and Management*, vol. 1, no. 2 (1982), pp. 196-208, and from data provided by the authors.

This section presents various illustrative options for making housing assistance an entitlement. Cost estimates for these options are based on an eventual overall participation rate of 58 percent. Given the uncertainty associated with actual participation rates, however, the ultimate costs might be appreciably higher or lower than these estimates.

All of the options presented below would eliminate the current lottery nature of housing assistance programs; that is, they would reduce the uneven treatment of households in similar economic situations and provide the opportunity for all eligible households to receive federal housing assistance. These options also would eliminate the need for PHAs to ration aid among many applicants. On the other hand, to the extent that participation rates fell short of 100 percent, some disparities among households with similar income would continue. Furthermore, as is the case with any entitlement program, future federal outlays for housing assistance would become more difficult to control, because they would require changes in authorizing legislation.

Maintain Current Income-Eligibility Limits and Household Contributions; Outlays Increase. The Congress could make housing assistance available to all households that qualify under current income-eligibility requirements without changing household contributions. If households participated at the rates described above, 2.2 million additional commitments would have to be authorized now, and some each year hereafter, to accommodate growth in the eligible population. If the program mix stipulated by the 1989 appropriation were used for assisting these additional households, this option would require in 1990 an increase of $109 billion in budget authority over current policy.

Given the expense associated with a large-scale program that involves new construction, most debates on structuring housing entitlement programs have centered around aiding additional households through existing-housing programs. If vouchers were used to provide all additional aid, an entitlement program would require an increase of $63 billion in budget authority in 1990, compared with current policy. It would add, when fully phased in, about $11.1 billion per year (in 1990 dollars) to current outlays to serve all very-low-income renters estimated to participate (see first panel of Box 3).

BOX 3
SELECTED EFFECTS OF ILLUSTRATIVE VOUCHER ENTITLEMENT PROGRAMS FOR RENTERS ELIGIBLE FOR ASSISTANCE IN 1990

Maintain Current Income-Eligibility Limits and Household Contributions; Outlays Increase

Income-Eligibility Limit	50 percent of area median income
Household Contribution	30 percent of adjusted income
New Commitments Funded	2.2 million
Increase in Outlays	$11.1 billion
Total Eventual Participants	7.1 million

Maintain Outlays at Current Policy Levels, Change Income-Eligibility Limits, Household Contributions, or Both

Reduce Income-Eligibility Limits; Maintain Current Household Contributions

Income-Eligibility Limit	33 percent of area median income
Household Contribution	30 percent of adjusted income
New Commitments Funded	0
Increase in Outlays	$0
Total Eventual Participants	4.9 million

Maintain Current Income-Eligibility Limits; Increase Household Contributions

Income-Eligibility Limit	50 percent of area median income
Household Contribution	54 percent of adjusted income
New Commitments Funded	0
Increase in Outlays	$0
Total Eventual Participants	7.1 million

Reduce Income-Eligibility Limits; Increase Household Contributions

Income-Eligibility Limit	40 percent of area median income
Household Contribution	42 percent of adjusted income
New Commitments Funded	0
Increase in Outlays	$0
Total Eventual Participants	5.8 million

(Continued)

Increase Outlays by 20 Percent Above Current Policy Levels; Change Income-Eligibility Limits, Household Contributions, or Both

Reduce Income-Eligibility Limits;
Maintain Current Household Contributions

Income-Eligibility Limit	38 percent of area median income
Household Contribution	30 percent of adjusted income
New Commitments Funded	627,000
Increase in Outlays	$3.1 billion
Total Eventual Participants	5.5 million

Maintain Current Income-Eligibility Limits;
Increase Household Contributions

Income-Eligibility Limit	50 percent of area median income
Household Contribution	47 percent of adjusted income
New Commitments Funded	627,000
Increase in Outlays	$3.1 billion
Total Eventual Participants	7.1 million

Reduce Income-Eligibility Limits;
Increase Household Contributions

Income-Eligibility Limit	40 percent of area median income
Household Contribution	34 percent of adjusted income
New Commitments Funded	627,000
Increase in Outlays	$3.1 billion
Total Eventual Participants	5.8 million

SOURCE: Congressional Budget Office.

NOTE: For illustrative purposes, these estimates assume that the various types of entitlement programs would be fully phased in as of 1990; that is, all newly funded commitments would be received for the entire year, and all current outstanding commitments would be immediately available only to the group of households meeting the eligibility criteria. In reality, however, such programs could not be fully phased in for a number of years. See text for additional details on each option.

This approach would be less expensive than an entitlement program using the current policy program mix for assisting additional households. As previously noted, however, expanding program coverage through vouchers might present problems in areas with a shortage of units in the existing-housing stock that can meet the needs of certain subgroups of the eligible population.

Although using vouchers in an entitlement program would keep the cost to a minimum, federal expenditures would greatly increase. The remainder of this section presents several illustrative options that would cost less. Budgetary effects and program guidelines for these options are shown in the second and third panels of Box 3.

Maintain Outlays at Current Policy Levels; Change Income-Eligibility Limits, Household Contributions, or Both. The cost of providing housing assistance as an entitlement could be limited either by lowering the income-eligibility level, which would decrease the number of likely participants, or by reducing the level of subsidy provided to each participant, or by a combination of these two approaches. Again, for any given level of outlays, the basic trade-off is between helping more households with higher income but forcing all recipients to pay more, and helping fewer households with the lowest income but allowing them to spend less of their income for housing.

Three illustrative options that would keep outlays constant at current policy levels are shown in the second panel of Box 3. The first option would do so by reducing the income-eligibility cutoff to 33 percent of area median income, while maintaining current policy with respect to households' out-of-pocket expenditures and FMRs.[22] Alternatively, households' contributions could be increased to 54 percent of adjusted income, while keeping current income-eligibility conditions the same. The third option--a combination approach--would reduce the income-eligibility cutoff to 40 percent of area median income, while increasing households' contributions to 42 percent of adjusted income. The first approach would not change the number of partic-

22. Lowering FMRs would also reduce the level of subsidies. This option is not considered here, because raising households' contributions could be implemented for all current and future participants, while lowering the FMRs would only affect new participants in the existing-housing programs. Thus, the latter approach would result in uneven benefits for assisted households, contrary to a major goal of entitlement programs.

ipants from current levels, while the second and third approaches would increase them by about 45 percent and 18 percent, respectively.

Increase Outlays by 20 Percent Above Current Policy Levels; Change Income-Eligibility Limits, Household Contributions, or Both. The final set of illustrative options assumes that outlays would be increased by 20 percent--or $3.1 billion--relative to the current policy level (see third panel of Box 3). This spending level would fund about 627,000 additional vouchers and would thus reduce the impact on current participants, compared with the three options that would keep outlays at current policy levels. In particular, with the increased federal expenditures, an entitlement program could be implemented either by reducing the income-eligibility limit to 38 percent of area median income or by raising household contributions to 47 percent of adjusted income. An example of a combination of both approaches would be to increase household contributions to 34 percent and reduce income limits to 40 percent of area median income.

APPENDIXES

APPENDIX A

OVERLAPPING HOUSING PROBLEMS, BY INCOME, TENURE, AND HOUSEHOLD TYPE, 1985

This appendix presents tables for various groups of households on the extent of overlap of housing problems--similar to Table 6 in Chapter II, which concerns very-low-income renters. Tables A-1 and A-2 pertain to low- and higher-income renters, respectively; and Tables A-3 through A-5 pertain to homeowners in the three income categories.

TABLE A-1. LOW-INCOME RENTERS WITH MULTIPLE HOUSING PROBLEMS, 1985

Housing Condition	Elderly, No Children	Nonelderly, No Children	Households With 1 or 2 Children	Households With 3 or More Children	All
			Thousands of Households		
No Problems	390	1,220	920	160	2,680
Costly, but Physically Adequate	430	960	670	120	2,190
Costly and Physically Inadequate					
Substandard	20	130	100	10	260
Crowded	a	10	50	40	110
Both	a	10	a	10	30
Subtotal	30	160	150	70	400
Physically Inadequate, but Not Costly					
Substandard	50	220	160	40	460
Crowded	a	30	150	130	310
Both	a	10	50	30	100
Subtotal	50	260	360	200	870
Total	900	2,600	2,100	550	6,140
			As Percentage of Households in Demographic Category		
No Problems	43	47	44	29	44
Costly, but Physically Adequate	48	37	32	22	36
Costly and Physically Inadequate					
Substandard	3	5	5	2	4
Crowded	a	a	2	8	2
Both	a	1	a	2	a
Subtotal	3	6	7	12	7
Physically Inadequate, but Not Costly					
Substandard	5	8	8	7	8
Crowded	a	1	7	24	5
Both	a	1	3	5	2
Subtotal	6	10	17	36	14
Total	100	100	100	100	100

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Data exclude renters who paid no cash rent and renters for whom housing cost-to-income ratios were not computed. Housing conditions are defined in Box 1 in Chapter II. Household types are defined in Box 2 in Chapter II.

A four-person household is classified as low-income if its income ranges from 51 percent to 80 percent of the area's median income. For a one-person household, the range for low-income designation is between 36 percent and 56 percent, while for an eight-person household the range is between 67 percent and 100 percent.

a. Fewer than 5,000 households or less than 0.5 percent.

TABLE A-2. HIGHER-INCOME RENTERS WITH MULTIPLE HOUSING PROBLEMS, 1985

Housing Condition	Elderly, No Children	Nonelderly, No Children	Households With 1 or 2 Children	Households With 3 or More Children	All
			Thousands of Households		
No Problems	700	6,700	2,400	280	10,070
Costly, but Physically Adequate	150	520	250	40	950
Costly and Physically Inadequate					
Substandard	10	40	10	a	60
Crowded	a	a	10	a	10
Both	a	a	a	a	a
Subtotal	10	40	20	a	80
Physically Inadequate, but Not Costly					
Substandard	60	550	220	20	870
Crowded	10	80	150	110	350
Both	a	20	40	20	70
Subtotal	70	650	410	150	1,280
Total	940	7,920	3,070	470	12,390
			As Percentage of Households in Demographic Category		
No Problems	75	85	78	59	81
Costly, but Physically Adequate	16	7	8	8	8
Costly and Physically Inadequate					
Substandard	1	1	a	a	1
Crowded	a	a	a	a	a
Both	a	a	a	a	a
Subtotal	1	1	1	a	1
Physically Inadequate, but Not Costly					
Substandard	7	7	7	5	7
Crowded	1	1	5	24	3
Both	a	a	1	4	1
Subtotal	8	8	13	33	10
Total	100	100	100	100	100

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Data exclude renters who paid no cash rent and renters for whom housing cost-to-income ratios were not computed. Housing conditions are defined in Box 1 in Chapter II. Household types are defined in Box 2 in Chapter II.

Higher-income households are all those not classified as low- or very-low-income in this study.

a. Fewer than 5,000 households or less than 0.5 percent.

TABLE A-3. VERY-LOW-INCOME HOMEOWNERS WITH MULTIPLE HOUSING PROBLEMS, 1985

Housing Condition	Elderly, No Children	Nonelderly, No Children	Households With 1 or 2 Children	Households With 3 or More Children	All
			Thousands of Households		
No Problems	2,460	440	450	110	3,450
Costly, but Physically Adequate	2,660	890	790	290	4,630
Costly and Physically Inadequate					
Substandard	160	60	70	30	330
Crowded	a	a	10	80	90
Both	a	a	a	10	20
Subtotal	160	60	80	120	430
Physically Inadequate, but Not Costly					
Substandard	200	60	70	10	350
Crowded	10	a	20	50	80
Both	a	a	a	30	40
Subtotal	210	60	90	100	470
Total	5,490	1,450	1,410	620	8,980
			As Percentage of Households in Demographic Category		
No Problems	45	30	31	18	38
Costly, but Physically Adequate	48	61	56	46	52
Costly and Physically Inadequate					
Substandard	3	4	5	5	4
Crowded	a	a	1	12	1
Both	a	a	a	2	a
Subtotal	3	4	6	19	5
Physically Inadequate, but Not Costly					
Substandard	4	4	5	2	4
Crowded	a	a	1	9	1
Both	a	a	a	5	a
Subtotal	4	4	7	16	5
Total	100	100	100	100	100

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Data exclude homeowners for whom housing cost-to-income ratios were not computed. Housing conditions are defined in Box 1 in Chapter II. Household types are defined in Box 2 in Chapter II.

A four-person household is classified as very-low-income if its income is less than or equal to 50 percent of the area's median income. Threshold incomes are adjusted for family size. For example, for a one-person household, the threshold is 35 percent, and for an eight-person household it is 66 percent.

a. Fewer than 5,000 households or less than 0.5 percent.

TABLE A-4. LOW-INCOME HOMEOWNERS WITH MULTIPLE HOUSING PROBLEMS, 1985

Housing Condition	Elderly, No Children	Nonelderly, No Children	Households With 1 or 2 Children	Households With 3 or More Children	All
			Thousands of Households		
No Problems	2,870	1,060	1,290	310	5,540
Costly, but Physically Adequate	450	430	600	190	1,670
Costly and Physically Inadequate					
Substandard	10	20	20	10	60
Crowded	a	a	10	40	50
Both	a	a	a	a	a
Subtotal	10	20	30	50	110
Physically Inadequate, but Not Costly					
Substandard	100	60	90	30	280
Crowded	a	a	40	90	120
Both	a	a	10	20	20
Subtotal	100	60	140	130	420
Total	3,440	1,580	2,050	680	7,740
			As Percentage of Households in Demographic Category		
No Problems	84	68	63	45	72
Costly, but Physically Adequate	13	28	29	28	22
Costly and Physically Inadequate					
Substandard	a	1	1	1	1
Crowded	a	a	a	6	1
Both	a	a	a	a	a
Subtotal	a	1	1	8	1
Physically Inadequate, but Not Costly					
Substandard	3	4	5	4	4
Crowded	a	a	2	13	2
Both	a	a	a	2	a
Subtotal	3	4	7	19	5
Total	100	100	100	100	100

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Data exclude homeowners for whom housing cost-to-income ratios were not computed. Housing conditions are defined in Box 1 in Chapter II. Houshold types are defined in Box 2 in Chapter II.

A four-person household is classified as low-income if its income ranges from 51 percent to 80 percent of the area's median income. For a one-person household, the range for low-income designation is between 36 percent and 56 percent, while for an eight-person household the range is between 67 percent and 100 percent.

a. Fewer than 5,000 households or less than 0.5 percent.

TABLE A-5. HIGHER-INCOME HOMEOWNERS WITH MULTIPLE HOUSING PROBLEMS, 1985

Housing Condition	Elderly, No Children	Nonelderly, No Children	Households With 1 or 2 Children	Households With 3 or More Children	All
			Thousands of Households		
No Problems	6,180	11,560	10,620	1,930	30,290
Costly, but Physically Adequate	220	1,100	1,240	330	2,900
Costly and Physically Inadequate					
Substandard	10	40	40	10	90
Crowded	a	a	a	20	20
Both	a	a	a	a	a
Subtotal	10	40	40	30	120
Physically Inadequate, but Not Costly					
Substandard	140	350	250	70	800
Crowded	a	20	110	220	360
Both	a	a	20	20	30
Subtotal	140	370	380	310	1,200
Total	6,540	13,070	12,280	2,600	34,500
			As Percentage of Households in Demographic Category		
No Problems	94	88	87	74	88
Costly, but Physically Adequate	3	8	10	13	8
Costly and Physically Inadequate					
Substandard	a	a	a	a	a
Crowded	a	a	a	1	a
Both	a	a	a	a	a
Subtotal	a	a	a	1	a
Physically Inadequate, but Not Costly					
Substandard	2	3	2	3	2
Crowded	a	a	1	9	1
Both	a	a	a	1	a
Subtotal	2	3	3	12	3
Total	100	100	100	100	100

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Data exclude homeowners for whom housing cost-to-income ratios were not computed. Housing conditions are defined in Box 1 in Chapter II. Household types are defined in Box 2 in Chapter II.

Higher-income households are all those not classified as low- or very-low-income in this study.

a. Fewer than 5,000 households or less than 0.5 percent.

APPENDIX B

TRANSFERRING CONTROL TO STATE AND LOCAL GOVERNMENTS THROUGH BLOCK GRANTS

Some or all control over housing policy decisions could be transferred from the federal government to state and local governments by providing some or all housing assistance through block grants. This general approach has been actively considered at various times during the past 15 years.[1] More recently, the National Housing Task Force--organized in 1987 as part of a Congressional effort to undertake a comprehensive review of housing policy--included as its cornerstone recommendation the creation of a "Housing Opportunity Program" (HOP), which would provide federal funds to state and local governments to encourage state and local initiatives for developing, renovating, and conserving low-income housing.[2]

Block grants could be distributed, for example, in a way similar to that used now for the Community Development Block Grant (CDBG) program--that is, formula entitlements for large units of local governments such as metropolitan cities and urban counties, with states receiving funds based on a formula for distribution to nonentitled areas. Moreover, grants could be provided with a requirement that state and local governments match some or all federal funds with their own funds, as suggested in the HOP proposal.

An advantage of a block grant approach would be that local decisionmakers are presumably in a better position than the federal government to know their local housing needs and hence to develop cost-effective strategies to address those needs. While the prescriptive nature of many of the current housing programs may limit their usefulness in some areas, block grants would provide flexibility to

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1. For an overview of options considered in the past and their implications, see, for example, Andre Shashaty, "The Reagan Housing Block Grant Program: How It Might Work," *Housing and Development Reporter* (December 8, 1980), pp. 565-568. Also see Congressional Budget Office, *Federal Housing Assistance: Alternative Approaches* (May 1982).

2. See National Housing Task Force, *A Decent Place to Live* (Washington D.C.: National Housing Task Force, March 1988).

tailor aid to local situations. For example, in tight inner-city markets, neither vouchers nor the new construction of housing projects might work, but government acquisition of privately owned housing projects might be effective. Cities experiencing rapid population growth might need different approaches from cities that are losing population. The limited availability of comparable data on localities points up the difficulty of making detailed decisions at the national level.

Arguments against using block grants focus on the potential divergence between local and national policy goals and concerns that much of the assistance might go to households with somewhat higher incomes among the eligible population. In addition, some argue that block grants would be difficult to use for the production of new lower-income housing, because the level of funds received by communities would generally be too small--particularly in small communities--to make the long-term commitments typically necessary for such endeavors and because many local governments lack expertise in housing development. In other words, the block grant approach would, in effect, be a decision to use existing housing almost exclusively.

There are also some constraints on the speed with which expenditures for current housing programs could be transformed into block grants.[3] Outlays for much of the current pool of assisted households could be scaled down only gradually because the federal government has contractual obligations with many project owners to provide subsidies for specified lengths of time. Operating subsidies for public housing, which are appropriated annually, and federal expenditures for household-based subsidies could presumably be folded immediately into the block grant entitlements, with the local governments deciding whether and how to change or to phase out these forms of housing assistance. Moreover, any new assistance that would have been funded through current programs could be diverted to block grants immediately.

3. The HOP approach would be in addition to most current programs rather than in lieu of them.

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